

**CITY OF LOS ANGELES, CALIFORNIA
PROPOSITION HHH PROGRAM FUNDS
(Special Revenue Fund and Debt Service Fund
of the City of Los Angeles)**

Independent Auditor's Reports
and Financial Statements

For the Year Ended June 30, 2024

**CITY OF LOS ANGELES, CALIFORNIA
PROPOSITION HHH PROGRAM FUNDS**

For the Year Ended June 30, 2024

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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council
City of Los Angeles, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Proposition HHH Special Revenue Fund and Debt Service Fund (collectively, the "Proposition HHH Program Funds") of the City of Los Angeles, California (the "City") as of and for the year ended June 30, 2024, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Proposition HHH Program Funds as of June 30, 2024, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matters

As discussed in Note 2, the financial statements present only the Proposition HHH Program Funds and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2024, 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.

As discussed in Note 4, during the fiscal year ended June 30, 2024, the City revised its estimate for the allowance for doubtful accounts on loans receivable. As a result of this change in estimate, the allowance for doubtful accounts increased by \$159.2 million. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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

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

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the 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 our report dated January 27, 2025, on our consideration of the City's internal control over financial reporting as it relates to the Proposition HHH Program Funds 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 solely to describe the scope of our testing of the City's internal control over the Proposition HHH Program Funds' financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance related to the Proposition HHH Program Funds. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance related to the Proposition HHH Program Funds.

Macias Gini & O'Connell LLP

Los Angeles, California
January 27, 2025

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**CITY OF LOS ANGELES, CALIFORNIA
PROPOSITION HHH PROGRAM FUNDS**

Balance Sheet
Year Ended June 30, 2024

	GOVERNMENTAL FUNDS		
	SPECIAL REVENUE FUND	DEBT SERVICE FUND	PROPOSITION HHH PROGRAM FUNDS TOTAL
ASSETS			
Cash and Pooled Investments	\$ 38,866,584	\$ 73,469,094	\$ 112,335,678
Loans Receivable			
(Net of Allowance for Uncollectibles of \$456,522,285)	370,074,383	-	370,074,383
Accrued Interest on Loans Receivable			
(Net of Allowance for Uncollectibles of \$21,038,063)	15,870,817	-	15,870,817
Taxes Receivable			
(Net of Allowance for Uncollectibles of \$409,781)	-	11,081,345	11,081,345
Investment Income Receivable	378,051	413,551	791,602
Properties Held for Housing Development	79,615,521	-	79,615,521
TOTAL ASSETS	\$ 504,805,356	\$ 84,963,990	\$ 589,769,346
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES			
Obligations Under Securities Lending Transactions	\$ 42,484	\$ 80,308	\$ 122,792
Due to City Funds	5,088	-	5,088
Other Liabilities	348,424	658,622	1,007,046
TOTAL LIABILITIES	395,996	738,930	1,134,926
DEFERRED INFLOWS OF RESOURCES			
Property Taxes	-	9,311,034	9,311,034
Interest Receivable on Loans and Investments	14,391,939	114,327	14,506,266
TOTAL DEFERRED INFLOWS OF RESOURCES	14,391,939	9,425,361	23,817,300
FUND BALANCES			
Restricted	490,017,421	74,799,699	564,817,120
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 504,805,356	\$ 84,963,990	\$ 589,769,346

See accompanying notes to the financial statements.

CITY OF LOS ANGELES, CALIFORNIA
PROPOSITION HHH PROGRAM FUNDS
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2024

	GOVERNMENTAL FUNDS		
	SPECIAL REVENUE FUND	DEBT SERVICE FUND	PROPOSITION HHH PROGRAM FUNDS TOTAL
REVENUES			
Property Taxes	\$ -	\$ 73,253,594	\$ 73,253,594
Investment Earnings	3,161,307	1,354,439	4,515,746
Change in Fair Value of Investments	10,843,082	1,530,813	12,373,895
Other	5,780,580	-	5,780,580
TOTAL REVENUES	19,784,969	76,138,846	95,923,815
EXPENDITURES			
Community Development	226,261,535	-	226,261,535
Debt Service:			
Principal	-	48,210,000	48,210,000
Interest	-	41,165,186	41,165,186
TOTAL EXPENDITURES	226,261,535	89,375,186	315,636,721
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	(206,476,566)	(13,236,340)	(219,712,906)
OTHER FINANCING SOURCES (USES)			
Transfers In	-	-	-
Transfers Out	(12,807,730)	-	(12,807,730)
TOTAL OTHER FINANCING SOURCES (USES)	(12,807,730)	-	(12,807,730)
NET CHANGE IN FUND BALANCES	(219,284,296)	(13,236,340)	(232,520,636)
FUND BALANCES, JULY 1, 2023	709,301,717	88,036,039	797,337,756
FUND BALANCES, JUNE 30, 2024	\$ 490,017,421	\$ 74,799,699	\$ 564,817,120

See accompanying notes to the financial statements.

**CITY OF LOS ANGELES, CALIFORNIA
PROPOSITION HHH PROGRAM FUNDS**

Notes to the Financial Statements
For the Year Ended June 30, 2024

NOTE 1 – BACKGROUND

In November 2016, registered voters of the City of Los Angeles, California (City) approved Proposition HHH, Homelessness Reduction and Prevention, Housing and Facilities Bond (Bond) authorizing the issuance and sale of general obligation bonds not to exceed \$1,200,000,000 to be used to finance the acquisition or improvement of real property to provide: (a) supportive housing for extremely low income or very low income individuals and families who are homeless or chronically homeless, which includes facilities from which assistance and services, such as mental health treatment, health care, drug and alcohol treatment, education and job training, may be provided; (b) temporary shelter facilities, storage facilities, shower facilities and other facilities to be used to provide supportive services or goods to, or otherwise benefit, those who are homeless, chronically homeless or at risk of homelessness; (c) affordable housing, including veterans housing, for extremely low income, very low income and/or low income individuals and families, including those who are at risk of homelessness; and (d) associated infrastructure and landscaping, including utilities, sidewalks and streets to be used in connection with the aforementioned housing units and other facilities; any of which may be operated, managed, owned or used by the City, other public entities, nonprofit entities or private entities, as permitted by law.

The table below sets forth the amount of Bonds authorized and issued pursuant to Proposition HHH (Prop HHH) as of June 30, 2024:

	Amount	Date
Voter authorization	\$ 1,200,000,000	November 8, 2016
Bonds issued:		
Series 2017-A Bond	86,370,000	July 13, 2017
Series 2018-A Bond	276,240,000	July 12, 2018
Series 2021-A Bond	211,940,000	November 10, 2021
Series 2022-A Bond	389,435,000	September 28, 2022
Authorized but unissued	\$ 236,015,000	

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements present only the financial position and the changes in financial position of the Proposition HHH Program Funds (Funds) and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2024, 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 (U.S. GAAP).

The funds are currently comprised of the following governmental funds:

- The Special Revenue fund is used to account for financial resources for loans to developers for financing of permanent supportive housing, affordable housing and supportive facilities for the homeless.
- The Debt Service fund is used to account for the payment of the maturing principal and interest from property tax collections.

CITY OF LOS ANGELES, CALIFORNIA
PROPOSITION HHH PROGRAM FUNDS
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2024

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

The Funds' activities are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if collected within 60 days of the end of the current fiscal period. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Cash and Pooled Investments

Cash and pooled investments represent the Funds' allocated portion of the City's pooled cash and investments. Cash and pooled investments are stated at fair value based on quoted market prices or values of comparable investments, except for money market investments that have remaining maturities of one year or less at the time of purchase, which are reported at amortized cost. Interest earned on such pooled investments is allocated to the City funds based on each fund's average daily cash balance during the allocation period.

As permitted by the California Government Code, the City engages in securities lending activities. The Funds' share of assets and liabilities arising from the reinvested cash collateral has been recognized in the financial statements.

Loans Receivable

Loans receivable includes two types of loan programs; the housing loan program, which is used for the acquisition, construction and permanent housing loans and the facilities loan program. The housing loans are recorded when a warrant is issued for an approved expenditure of the project. Interest at rates ranging from one (1%) to three percent (3%) per annum accrues on the principal amount outstanding from the date of the warrant, until the loan is repaid. Facility loans are recorded when a warrant is issued for an approved expenditure of the project. No interest is recorded for facility loans. Facility loans are in the form of service payback loans, whereby borrowers repay the loan by providing specified services in accordance with the loan agreement.

Loans receivable are reported net of the allowance for uncollectible loans. In estimating the allowance, similar type loans in the City's portfolio were considered such as: the composition of the loan portfolio, past write-off experience, past market valuation and the average year-end allowance balance as a percentage of the total portfolio. No allowance is recorded for facility loans as management expects that services will be rendered as stated in the loan agreement.

Taxes Receivable

Taxes receivable records the property taxes that are levied but not received as of June 30, 2024 and is reported net of allowance for uncollectible accounts. The allowance represents the delinquent unsecured property taxes that may not be collected in subsequent periods due to business closures.

CITY OF LOS ANGELES, CALIFORNIA
PROPOSITION HHH PROGRAM FUNDS
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2024

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Inflows of Resources

A deferred inflow of resources is defined as an acquisition of fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time. Revenues and other governmental fund financial resources are recognized in the accounting period in which they become both measurable and available. Deferred inflows of resources reported on the balance sheet represent revenues that were not received within the City's 60-day availability period.

Other Liabilities

Other liabilities represent the Funds' share of the Pool's pending investment trades at year-end.

Fund Balances

The balance sheets of governmental funds classify fund balances based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which those funds can be spent. The Funds only have restricted fund balances as of June 30, 2024. Restricted fund balance represents amounts when constraints placed on use of resources are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributions, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Adoption of New Governmental Accounting Standards Board (GASB) Pronouncements

The Fund adopted the following GASB statement in fiscal year 2024:

GASB Statement No. 100, "Accounting Changes and Error Corrections — an amendment of GASB Statement No. 62." Issued in June 2022, the statement provides guidance on the accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The Fund implemented the requirements related to change in estimate. See Note 4.

NOTE 3 – CASH AND POOLED INVESTMENTS

The Funds maintain their cash in the City's cash and pooled investments (the Pool). The City categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of June 30, 2024, the Funds' share of the Pool was \$112,335,678, which represents approximately 0.80% of the Pool. There are no specific investments belonging to the Funds. The City issues a publicly available financial report that includes complete disclosures related to the entire cash and investment pool. The report may be obtained by writing to the City of Los Angeles, Office of the Controller, 200 North Main Street, City Hall East Suite 300, Los Angeles, CA 90012, or at <https://controller.lacity.gov/reports>.

CITY OF LOS ANGELES, CALIFORNIA
PROPOSITION HHH PROGRAM FUNDS
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2024

NOTE 3 – CASH AND POOLED INVESTMENTS (Continued)

City of Los Angeles Securities Lending Program

The Securities Lending Program (SLP) is permitted and limited under provisions of California Government Code Section 53601. The City Treasurer is authorized to engage contractors to perform securities lending activities or to permit custodian banks to subcontract for securities lending services as delineated in the securities lending authorization agreement dated November 13, 2017. The objectives of the SLP in priority order are the safety of loaned securities and prudent investment of cash collateral to enhance revenue from the investment program. The SLP is governed by a separate policy and guidelines, with oversight responsibility by the Investment Advisory Committee of the City Council.

The City's custodial bank acts as the securities lending agent. In the event a counterparty defaults by reason of an act of insolvency, the bank shall take all actions which it deems necessary or appropriate to liquidate permitted investments and collateral in connection with such transaction and shall make a reasonable effort for two business days (Replacement Period) to apply the proceeds thereof to the purchase of securities identical to the loaned securities not returned. If during the Replacement Period the collateral liquidation proceeds are insufficient to replace any of the loaned securities not returned, the bank shall, subject to payment by the City of the amount of any losses on any permitted investments, pay such additional amounts as necessary to make such replacement.

Under the provisions of the SLP, and in accordance with the California Government Code, no more than 20% of the market value of the Pool is available for lending. The City receives cash, U.S. government securities, and federal agency issued securities as collateral on loaned securities. The cash collateral is reinvested in securities permitted under the investment policy. In accordance with the California Government Code, the securities lending agent marks to market the value of both the collateral and the reinvestments daily. Except for open loans where either party can terminate a lending contract on demand, term loans have a maximum life of 92 days.

Earnings from securities lending accrue to the Pool and are allocated on a pro-rata basis to all Pool participants. The Funds participate in the City's securities lending program through the pooled investment fund. The Funds recognize their proportionate share of the cash collateral received for securities loaned and the related obligation for the general investment pool. At June 30, 2024, the Funds' portion of the cash collateral and the related securities lending obligation was \$122,792. The Funds' portion of the securities purchased from the reinvested cash collateral as of June 30, 2024 was \$122,792. Such securities are reported at fair value. The Funds' portion of the noncash collateral as of June 30, 2024 was \$3,832,461.

During the fiscal year, collateralization on all loaned securities were within the required 102% of market value. The City can sell collateral securities only in the event of borrower default. The lending agent provides indemnification for borrower default. There were no violations of legal or contractual provisions and no borrower or lending agent default losses during the fiscal year. There was no credit risk exposure to the City as of June 30, 2024, because the amounts owed to the borrowers exceeded the amounts borrowed.

Loaned securities are held by the City's agents in the City's name and are not subject to custodial credit risk.

CITY OF LOS ANGELES, CALIFORNIA
PROPOSITION HHH PROGRAM FUNDS
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2024

NOTE 4 – LOANS AND INTEREST RECEIVABLE

Loans receivable consists of two types of loan programs as follows:

Housing Loan Programs:

The Housing Loan Program provides funding commitments to project sponsors who meet specific criteria. This program is designed to leverage existing and future City, County, State and Federal funding streams to construct permanent supportive housing and affordable housing units. The loans receivable balance of housing loans consists of the following:

Borrower	Date of Execution	Not to Exceed Amount¹	No. of Units	Interest Rate²	Loan Term³	Loan Receivable Balance at 6/30/2024	Interest Balance at 6/30/2024
88th & Vermont, L.P.	March 2018	\$ 9,680,000	62	3%	55 years	\$ 9,680,000	\$ 1,093,326
Metro Villas Phase 2 Los Angeles, L.P.	December 2017	3,513,721	122	3%	55 years	3,513,721	332,573
649 Lofts, L.P.	December 2017	5,500,000	55	3%	57 years	5,500,000	809,307
McCadden Plaza TAY Housing, L.P.	September 2018	5,018,298	26	3%	57 years	5,018,298	459,638
Sun Valley Housing, L.P. (Casa Del Sol project)	September 2018	8,065,143	44	3%	55 years	8,065,143	789,114
FLOR 401 Lofts, L.P.	December 2018	11,980,000	98	1%	57 years	11,980,000	537,817
RISE Housing, L.P.	October 2018	9,500,000	57	3%	57 years	9,500,000	653,375
SP7 Apartments, L.P.	September 2018	12,000,000	80	3%	57 years	7,187,000	320,172
Pointe on Vermont, L.P.	June 2019	10,400,000 (\$7,900,000 funded by Prop HHH)	50	3%	57 years	7,601,641	464,306
McCadden Plaza, L.P. (McCadden Campus Senior Housing Project)	December 2018	5,500,000	97	3%	57 years	5,500,000	708,737
Hollywood Community Housing Corporation (Gramercy Place Apartments)	April 2019	13,920,000 (\$9,920,000 funded by Prop HHH)	64	3%	57 years	9,662,230	409,017
Casa de Rosa Campus, L.P.	March 2019	7,920,000	37	3%	57 years	5,140,043	397,126
Cambria PSH, L.P. (Aria Apartments)	December 2018	12,000,000	56	3%	57 years	11,556,426	1,173,986
Missouri & Bundy Housing (Missouri Place Apartments)	October 2019	11,520,000	74	3%	57 years	12,055,594	794,251
Hartford Villa Apartments, L.P.	November 2018	12,000,000	100	3%	57 years	12,000,000	768,728
Montclair LA, L.P. (PATH Villas Montclair project)	December 2019	9,900,000	46	3%	57 years	9,900,000	197,103
433 Vermont, L.P.	March 2019	\$ 8,700,000 (\$7,200,000 funded by Prop HHH)	72	3%	57 years	7,200,000	633,982

(Continued)

CITY OF LOS ANGELES, CALIFORNIA
PROPOSITION HHH PROGRAM FUNDS
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2024

NOTE 4 – LOANS AND INTEREST RECEIVABLE (Continued)

Housing Loan Programs (Continued):

Borrower	Date of Execution	Not to Exceed Amount¹	No. of Units	Interest Rate²	Loan Term³	Loan Receivable Balance at 6/30/2024	Interest Balance at 6/30/2024
Residence on Main, L.P.	April 2019	10,780,000	50	3%	57 years	\$ 10,272,777	\$ 702,255
11681 Foothill, L.P. (Summit View Apartments)	December 2019	10,560,000	49	3%	57 years	10,560,000	120,317
Western Avenue Apartments Preservation, LLC	November 2018	4,660,033	32	3%	57 years	4,660,033	772,544
Broadway Apartments Preservation, L.P.	March 2019	4,443,480	35	3%	57 years	4,443,480	681,131
Metamorphosis on Foothill, L.P.	February 2019	10,340,000	47	3%	57 years	10,340,000	212,051
Melrose PSH, L.P. (Emerson Apartments)	November 2019	8,360,000	39	3%	57 years	8,360,000	597,774
Rosa de Castilla, L.P.	April 2019	12,000,000	85	3%	57 years	12,000,000	1,479,194
Florence Towne, L.P.	February 2020	7,000,000	51	3%	57 years	7,000,000	341,190
Adam's Terrace, L.P.	October 2021	12,000,000	38	1%	57 years	12,000,000	114,771
Sun Commons, L.P.	December 2020	12,000,000	103	3%	57 years	11,464,406	992,247
Isla de Los Angeles, L.P.	March 2020	11,660,000	54	1%	57 years	7,790,000	243,119
Firmin Court, L.P.	June 2020	11,700,000	64	3%	57 years	11,697,690	1,003,965
Ruth Teague Homes, L.P. (67th and Main Street)	December 2020	7,180,000	52	3%	57 years	6,462,000	541,262
720 Rose, L.P. (Rose Apartments)	April 2020	6,888,468	35	3%	57 years	6,734,026	385,111
Washington View, L.P.	April 2020	12,000,000	121	3%	57 years	12,000,000	975,977
HiFi Collective, L.P.	June 2020	12,760,000	63	3%	57 years	12,760,000	516,153
S. Main PSH, L.P.	May 2020	12,000,000	56	3%	57 years	12,000,000	688,681
Chesterfield Apartments, L.P.	November 2020	7,484,199	42	3%	57 years	7,339,802	178,568
Watts Works, L.P.	June 2020	2,400,000	25	3%	57 years	2,400,000	193,643
LINC- Central, L.P. (Cadence)	October 2020	10,112,000	63	3%	57 years	10,112,000	484,103
Amani Apartments, L.P.	October 2020	11,410,000	54	3%	57 years	11,410,000	328,256
Sylmar II, L.P.	October 2020	9,100,000	56	3%	57 years	9,100,000	298,207
Owensmouth 6940, L.P.	November 2020	6,226,546	80	3%	57 years	6,226,546	270,266
Harvard, L.P.	October 2020	6,440,000	47	3%	57 years	3,200,000	184,085
Depot at Hyde Park Partners, L.P.	April 2021	6,840,000	43	3%	57 years	6,840,000	440,336
PVH LA, L.P.	February 2021	12,320,000	60	3%	57 years	8,384,838	235,413
Marcella Gardens, L.P.	October 2020	12,000,000	60	3%	57 years	6,151,026	334,672
Bryson II Partners, L.P.	April 2021	10,060,000	63	3%	57 years	9,054,000	497,748

(Continued)

**CITY OF LOS ANGELES, CALIFORNIA
PROPOSITION HHH PROGRAM FUNDS**
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2024

NOTE 4 – LOANS AND INTEREST RECEIVABLE (Continued)

Housing Loan Programs (Continued):

Borrower	Date of Execution	Not to Exceed Amount¹	No. of Units	Interest Rate²	Loan Term³	Loan Receivable Balance at 6/30/2024	Interest Balance at 6/30/2024
Berendo Sage, L.P.	October 2020	6,620,000	42	3%	57 years	\$ 6,620,000	\$ 56,823
Main 50 Housing, L.P.	June 2021	\$ 8,512,000	57	3%	57 years	7,349,119	417,143
La Veranda, L.P.	June 2021	9,120,000	77	3%	57 years	8,208,000	528,724
S. Broadway SH, L.P.	June 2021	10,816,454	55	3%	57 years	10,816,454	240,942
Mercy Housing California 94, L.P.	May 2021	10,505,254	54	3%	57 years	8,774,330	525,796
Colorado East, L.P.	August 2020	8,800,000	41	3%	57 years	7,899,322	482,247
Hope on Hyde Park, L.P.	January 2021	9,280,000	98	3%	57 years	9,280,000	257,043
Hope on Broadway, L.P.	January 2021	6,720,000	49	3%	57 years	6,720,000	323,405
Lake House, L.P.	June 2021	6,510,000	63	3%	57 years	5,859,000	298,484
11010 SMB, L.P.	June 2021	7,000,000	51	3%	57 years	7,000,000	329,793
16015 Sherman, L.P.	February 2021	6,300,000	46	3%	57 years	5,815,695	358,885
11604 Vanowen, L.P.	March 2020	4,900,000	49	3%	57 years	4,900,000	397,930
Reseda Theater Senior Housing, L.P.	October 2020	4,060,000	26	3%	57 years	5,189,319	123,808
Mercy Housing California 89, L.P.	July 2021	12,918,436	94	3%	57 years	11,280,694	645,193
Mariposa Lily, L.P.	March 2021	4,584,828	41	3%	57 years	4,584,828	83,017
Los Lirios Apartments, L.P.	December 2021	2,000,000	64	3%	57 years	1,800,000	121,338
Wakeland Wilcox, L.P.	October 2021	5,225,000	61	3%	57 years	5,225,000	51,984
7639 van Nuys	April 2022	17,695,502 (\$1,894,020 funded by prop HHH)		3%	57 years	5,245,772	386,104
1654 W Florence	April 2022	49,734,807 (\$5,427,080 funded by prop HHH)	128	3%	57 years	1,771,744	-
Oak Apartments, L.P.	June 2022	6,610,000	64	3%	57 years	4,945,206	158,605
Brine Residential, L.P.	October 2021	11,560,000	97	3%	55 years	11,560,000	313,535
Building 205 Preservation, L.P.	June 2020	11,622,000	67	3%	57 years	10,892,230	396,670
Building 208 Preservation, L.P.	June 2020	11,660,000	53	3%	57 years	10,911,439	376,001
VA Building 207, L.P.	November 2020	8,260,000	60	3%	57 years	8,020,000	262,379
923 Kenmore, L.P.	March 2021	10,562,521	75	3%	57 years	10,562,521	105,455
9502 Van Nuys, L.P.	March 2021	8,780,043	49	3%	57 years	8,780,043	169,708
6604 West PSH, L.P.	March 2021	5,710,309	64	3%	57 years	5,710,309	99,277
Sun King, L.P.	June 2021	5,500,000	26	3%	57 years	5,500,000	81,008

(Continued)

**CITY OF LOS ANGELES, CALIFORNIA
PROPOSITION HHH PROGRAM FUNDS**
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2024

NOTE 4 – LOANS AND INTEREST RECEIVABLE (Continued)

Housing Loan Programs (Continued):

Borrower	Date of Execution	Not to Exceed Amount¹	No. of Units	Interest Rate²	Loan Term³	Loan Receivable Balance at 6/30/2024	Interest Balance at 6/30/2024
WAC, L.P. (Washington Arts Collective)	October 2021	2,097,200	56	3%	55 years	\$ 1,887,480	\$ 91,502
NoHo 5050, L.P.	October 2021	3,493,523	40	3%	57 years	3,144,171	71,800
110 South Boyle, L.P. (La Guadalupe)	December 2023	8,982,843	44	3%	57 years	2,204,277	61,985
1043 Harvard, L.P. (McDaniel House)	October 2021	6,440,000	47	3%	55 years	2,915,996	167,747
Thatcher Yard Housing, L.P.	October 2021	11,660,000	98	3%	57 years	10,104,518	414,847
CRCO 5th Street, L.P.	October 2021	15,120,000	95	3%	57 years	10,903,104	233,816
Arthur McLin III / Lorena Plaza, L.P.	November 2021	2,903,202	48	3%	57 years	2,571,258	73,114
Topanga Canyon SH, L.P.	December 2021	7,560,000	55	3%	57 years	5,292,000	233,374
Barry Family Housing, L.P.	February 2022	6,918,400	61	3%	57 years	4,979,822	208,332
Beacon Landing, L.P.	February 2022	8,555,556	89	3%	57 years	7,700,000	297,666
2471 Lincoln, L.P.	February 2022	5,460,000	39	3%	55 years	4,914,000	130,802
Montesquieu Manor Associates	February 2022	4,747,000	53	3%	57 years	3,357,930	50,660
Rousseau Residences Associates	February 2022	4,058,000	52	3%	57 years	3,466,344	52,672
The Angell 2018, L. P.	February 2022	5,565,000	54	3%	57 years	5,074,307	227,147
Central Avenue Housing, L.P.	February 2022	7,840,000	57	3%	57 years	5,777,322	149,030
SMV Housing	February 2022	24,000,000	187	1%	57 years	20,520,000	252,832
4507 Main St. EAH, L.P.	April 2022	6,000,000	61	3%	55 years	5,574,020	230,211
The Banning, L.P.	May 2022	8,000,000	64	3%	57 years	4,951,202	131,275
Mercy Housing California 100, L.P.	June 2022	6,125,000	64	3%	57 years	4,691,624	122,581
Ambrose Apartments, L.P.	April 2021	6,300,000	47	3%	57 years	6,300,000	226,282
Pointe on La Brea, L.P.	October 2021	7,567,686	50	3%	57 years	4,087,217	54,858
Ingraham Apartments, L.P.	August 2020	12,000,000	121	3%	57 years	610,839	9,732
EngAGE Inc.	December 2021	41,530	20	3%	1 years	10,663,918	3,506
1141 Crenshaw, L.P.	September 2021	9,240,000	43	3%	55 years	5,728,259	268,255
Southside LA Housing Partners, L.P.	June 2022	9,220,000	50	3%	57 years	8,251,740	163,178
Weingart Tower, L.P.	September 2021	16,000,000	134	3%	57 years	12,973,322	281,357
Weingart Tower II, L.P.	May 2021	16,000,000	144	3%	57 years	13,020,541	303,940
Montecito II Senior Housing LP	September 2022	10,140,000	64	3%	57 years	9,021,169	165,711
Villa Vanowen (Confianza Project) L.P.	May 2023	10,000,000	64	3%	57 years	937,362	2,003

(Continued)

CITY OF LOS ANGELES, CALIFORNIA
PROPOSITION HHH PROGRAM FUNDS
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2024

NOTE 4 – LOANS AND INTEREST RECEIVABLE (Continued)

Housing Loan Programs (Continued):

Borrower	Date of Execution	Not to Exceed Amount ¹	No. of Units	Interest Rate ²	Loan Term ³	Loan Receivable Balance at 6/30/2024	Interest Balance at 6/30/2024
Ambrosia Apartments Associates, L.P.	June 2023	11,200,000	90	3%	57 years	\$ 2,879,139	\$ 4,449
VM Senior LP	May 2022	12,400,000	62	3%	57 years	5,228,007	68,527
Voltaire Villas Associates	June 2022	9,940,000	72	3%	57 years	3,609,913	66,081
Wakeland Quincy LP	October 2021	3,550,000	54	3%	57 years	3,550,000	5,836
Loma Verde, L.P.	January 2024	2,660,000	19	3%	57 years	28,946	55
Avalon 1355 Partners, LP	January 2022	7,000,000	54	3%	57 years	6,048,752	69,433
Western Landing, L.P.	May 2023	8,289,109	81	3%	57 years	7,460,198	67,390
21300 Devonshire LP	October 2023	10,407,427	100	3%	57 years	968,848	-
Hillhaven LOMOD, Inc.	February 2024	1,850,000	34	0%	55 years	1,850,000	-
Soto LOMOD, Inc.	February 2024	4,625,000	85	0%	55 years	4,625,000	-
Total:						\$ 800,916,290	\$ 36,908,880

¹ The loan is secured initially by a Fee and Leasehold Deed of Trust recorded against certain fee and leasehold parcels of the property, and further by the Deed of Trust recorded against the remaining fee parcels of the property.

² The loan bears interest per annum on the principal amount outstanding from the date of the warrant for approved expenditures until paid. Interest is computed based upon a 365-day or 360-day year, and a 30-day month.

³ The principal and accrued interest is due and payable on the earliest of (a) Loan term, (b) the date the property is sold, assigned, transferred, or refinanced, or (c) an Event of Default by the Borrower.

Change in the Allowance for Doubtful Accounts Methodology for Housing Loans:

In March of Fiscal Year 2024, Los Angeles Housing Department (LAHD) management revisited and updated the allowance for doubtful accounts methodology and valuation to ensure the accurate statement of loans receivable and interest receivable balances. LAHD conducted and completed the Loans Receivable Valuation establishing new percentages for the allowance for uncollectible amount based on the Discounted Net Present Value Calculation. The allowance for doubtful account percentage for Fiscal Year 2024 is 57%, a 19% increase from Fiscal Year 2023's 38%. As a result, the allowance for uncollectible accounts increased \$159.2 million. This change is preferable to better reflect the collectibility of loan principal and interest. A summary of changes is as follows:

Loans and accrued interest on loans receivable	Allowance for uncollectibles - estimate based on prior methodology	Allowance for uncollectibles - estimate based on revised methodology	Change in estimate
\$ 837,825,170	\$ 318,373,565	\$ 477,560,347	\$ 159,186,782

**CITY OF LOS ANGELES, CALIFORNIA
PROPOSITION HHH PROGRAM FUNDS**

Notes to the Financial Statements
For the Year Ended June 30, 2024

NOTE 4 – LOANS AND INTEREST RECEIVABLE (Continued)

Facility Loan Programs:

The Facilities Loan Program provides funding for the development, acquisition or improvement of facilities used to provide supportive services or goods to or otherwise benefit those who are homeless, chronically homeless or at risk of homelessness. These loans are in the form of a service payback agreement with a term corresponding to the useful life of the facility. The provider is required to provide supportive services, goods, or other benefits to persons who are homeless for the periods ranging from 15 (fifteen) to 50 (fifty) years from the completion of the projects as specified in the agreement. As of June 30, 2024, the service payback amount totaled \$3,491,472.

The loans receivable balance of facility loans before the service payback consists of the following:

Borrower	Date of Execution	Not to Exceed Amount¹	Project Title	Years of Service²	Loan Receivable Balance at 6/30/2024	Service Payback Amount at 6/30/2024
Community Build, Inc.	March 2018	\$3,245,154	The 88th and Vermont Youth and Community Center	39	\$2,684,251	\$560,903
Los Angeles Christian Health Centers	December 2017	3,700,000	Joshua House Health Center	39	3,075,545	237,180
St. Barnabas Senior Center of Los Angeles	March 2019	276,955	St. Barnabas Senior Center of Los Angeles	15	249,259	27,696
Jennessee Center	January 2019	750,800	Fannie Lou Hammer Emergency Shelter	50	675,720	-
House of Ruth	April 2019	1,219,185	Viki's House	42.5	1,014,723	110,835
New Economics for Women	May 2019	2,974,841	La Posada	20	2,826,099	148,742
Haven Hills	March 2019	100,000	Service Center Minor Rehabilitation Project	15	90,001	9,999
Haven Hills	March 2019	278,338	Haven Hills Crisis Shelter	15	216,337	-
Haven Hills	March 2019	599,824	Haven Hills Seismic Retrofit	15	599,824	-
Volunteers of America Los Angeles	October 2019	1,742,200	Wraparound Recuperative Care Center	10	1,567,980	174,220
St. John's Well Child and Family Center	January 2019	3,500,000	St. John's Well Child and Family Center	20	2,975,000	525,000

(Continued)

**CITY OF LOS ANGELES, CALIFORNIA
PROPOSITION HHH PROGRAM FUNDS**

Notes to the Financial Statements
For the Year Ended June 30, 2024

NOTE 4 – LOANS AND INTEREST RECEIVABLE (Continued)

Facility Loan Programs (Continued):

Borrower	Date of Execution	Not to Exceed Amount¹	Project Title	Years of Service²	Loan Receivable Balance at 6/30/2024	Service Payback Amount at 6/30/2024
Coalition for Responsible Community Development	April 2019	3,500,000	Ruth's Place	27.5	\$2,704,614	-
Little Tokyo Service Center Community Development Corporation	April 2019	943,191	Little Tokyo Service Center	27.5	857,446	85,745
Midnight Mission	January 2019	3,100,000	Midnight Mission	15	2,376,669	723,331
The People Concern	February 2019	1,367,150	People Concern interim housing facility	15	1,048,146	319,004
Watts Labor Community Action Committee	April 2019	1,839,666	WLCAC Homeless and Housing Access Center	25	39,614	-
South Campus	March 2018	1,302,500	Los Angeles Family Housing South Campus	16	976,868	325,632
People Assisting the Homeless (PATH)	December 2019	1,945,468	People Assisting the Homeless Interim Facility	20	1,702,282	243,185
				Total:	\$25,680,378	\$3,491,472

¹ The loan is secured by, as applicable, a deed of trust with the power to sell the property in favor of the City or a collateral assignment of lessee's interest in lease, or any other instrument that the City deems appropriate.

² Starting from the completion of the project.

CITY OF LOS ANGELES, CALIFORNIA
PROPOSITION HHH PROGRAM FUNDS
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2024

NOTE 5 – PROPOSITION HHH BONDS

On July 13, 2017, the City issued taxable General Obligation Bonds (GOB) Series 2017-A in the principal amount of \$86,370,000 payable through September 1, 2037, with a premium of \$582,034 and interest rates ranging from 1.5% to 3.5%. The GOB is secured by and payable with property taxes. Principal payments are due annually on September 1 of each year and interest payments are due semiannually on March 1 and September 1 of each year until maturity. The outstanding balance at June 30, 2024 is \$60,450,000.

On July 12, 2018, the City issued taxable GOB Series 2018-A in the principal amount of \$276,240,000 payable through September 1, 2038 with a premium of \$1,112,660 and interest rates ranging from 2.9% to 4.0%. The GOB is secured by and payable with property taxes. Principal payments are due annually on September 1 of each year and interest payments are due semiannually on March 1 and September 1 of each year until maturity. The outstanding balance at June 30, 2024 is \$207,165,000.

On November 10, 2021, the City issued taxable GOB Series 2021-A in the principal amount of \$211,940,000 payable through September 1, 2041 with a premium of \$2,858,926 and interest rates ranging from 1.5% to 3.0%. The GOB is secured by and payable with property taxes. Principal payments are due annually on September 1 of each year and interest payments are due semiannually on March 1 and September 1 of each year until maturity. The outstanding balance at June 30, 2024 is \$190,740,000.

On September 15, 2022, the City issued taxable GOB Series 2022-A in the principal amount of \$389,435,000 payable through September 1, 2042 with a premium of \$5,598,340 and interest rates ranging from 4.4% to 5.0%. The GOB is secured by and payable with property taxes. Principal payments are due annually on September 1 of each year and interest payments are due semiannually on March 1 and September 1 of each year until maturity. The outstanding balance at June 30, 2024 is \$369,960,000.

The bond activity for the year ended June 30, 2024, is as follows:

Balance at July 1, 2023	Additions	Reductions	Balance at June 30, 2024
\$ 876,525,000	\$ -	\$ 48,210,000	\$ 828,315,000

Annual debt service requirements to maturity for the Proposition HHH bonds are as follows (in thousands):

Fiscal Year	2017-A		2018-A		2021-A		2022-A	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2025	\$ 4,320	\$ 1,850	\$ 13,815	\$ 7,466	\$ 10,600	\$ 4,397	\$ 19,475	\$ 17,529
2026	4,320	1,729	13,815	6,998	10,600	4,079	19,475	16,555
2027	4,320	1,602	13,815	6,518	10,600	3,761	19,475	15,582
2028	4,320	1,472	13,810	6,032	10,600	3,523	19,475	14,608
2029	4,320	1,344	13,810	5,540	10,600	3,353	19,475	13,634
2030 - 2034	21,590	4,703	69,050	19,991	52,980	13,716	97,355	53,803
2035 - 2039	17,260	1,193	69,050	6,698	52,975	7,627	97,350	31,274
2040 - 2043	-	-	-	-	31,785	1,283	77,880	7,788
Total:	\$ 60,450	\$ 13,892	\$ 207,165	\$ 59,244	\$ 190,740	\$ 41,738	\$ 369,960	\$ 170,773

CITY OF LOS ANGELES, CALIFORNIA
PROPOSITION HHH PROGRAM FUNDS
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2024

NOTE 6 – TRANSFERS OUT

Transfers of \$12,807,730 was made from the special revenue fund to the General Fund according to the estimated use of 2022-A bond proceeds.

NOTE 7 – ENCUMBRANCES AND COMMITMENTS

At June 30, 2023, the following outstanding project loan encumbrances, which represent the respective remaining available Prop HHH loan balances, are as follows:

<u>Project</u>	<u>Amount</u>
<i>Facility Loan Programs:</i>	
Coalition for Responsible Community Development	\$ 795,386
Fannie Lou Hammer Emergency Shelter	75,080
Haven Hills Crisis Shelter	62,001
Joshua House Health Center	387,275
Viki's House (House of Ruth)	1,800,051
WLCAC Homeless and Housing Access Center	93,627
Subtotal facility loan encumbrances:	<u>3,213,420</u>
<i>Housing Loan Programs:</i>	
21300 Devonshire	9,438,579
4507 Main St.	425,980
6th and San Julian	1,637,742
803 E. 5th St.	4,216,896
Ambrosia	8,320,861
Avalon 1355	951,248
Beacon Landing	855,556
Bryson II	1,006,000
Building 205	729,770
Building 208	748,561
Casa de Rosas Campus	2,779,957
Central Apartments	2,062,678
Colorado East	900,678
Ingraham Villa Apartments	11,389,161
La Guadalupe	6,778,566
Loma Verde (fka RETHINK Housing Westlake)	2,631,054
Lorena Plaza	290,320
Los Lirios Apartments	2,754
Lumina	2,268,000
Main Street Apartments	1,162,881
Marcella Gardens (68th & Main St.)	5,848,974
McDaniel House	324,004
Montecito II Senior Housing	1,118,831
Montesquieu Manor	1,389,070
My Angel	490,693
NoHo 5055	349,352
	<i>(Continued)</i>

CITY OF LOS ANGELES, CALIFORNIA
PROPOSITION HHH PROGRAM FUNDS
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2024

NOTE 7 – ENCUMBRANCES AND COMMITMENTS (Continued)

<u>Project</u>	<u>Amount</u>
<i>Housing Loan Programs (continued):</i>	
Oak Apartment	\$ 1,664,794
Oatsie’s Place	484,305
Pointe on La Brea	3,480,469
Rose Apartments	154,442
Rousseau Residences	591,656
Ruth Teague Homes	718,000
Santa Monica & Vermont I & II	3,480,000
Sherman Oaks Senior Housing	1,730,924
Solaris Apartments	3,511,741
Southside Seniors	968,260
SP7 Apartments	553,481
Thatcher Yard Housing	1,555,482
The Banning	3,048,799
The Iris	1,938,578
The Journey	546,000
The Lake House	651,000
The Pointe on Vermont	298,359
VA Building 207	240,000
Villa Vanowen (fka Confianza)	9,062,638
Vermont Manchester Senior	7,171,993
Voltaire Villas	6,330,087
Washington Arts Collective	209,720
Weingart Tower A-134 (fka Weingart Tower HHH PSH1A)	3,026,678
Weingart Tower A-144 (fka Weingart Tower II 1A)	2,979,459
Western Landing	828,911
Whittier	1,433,376
Subtotal housing loan encumbrances	124,777,318
Total loan encumbrances	\$ 127,990,738

In addition to the table above, the City-owned projects consisting of 1) the CD 8 Navigation Center, 2) Navigation Center at San Pedro Harbor Center, 3) Sherman Way Navigation Center and 4) the Women’s Bridge Housing, had outstanding encumbrances totaling \$5,024 at June 30, 2024.

Total project commitments as of June 30, 2024, for permanent supportive housing projects are approximately \$1,116,081,333 for 8,833 units. Total project commitments for facilities projects totaled \$832,004. The Proposition HHH funds are fully committed as of June 30, 2024.

NOTE 8 – SUBSEQUENT EVENT

On July 9, 2024, the City issued taxable General Obligation Bonds (GOB) Series 2024-A in the principal amount of \$150,000,000 payable through September 1, 2043, with a premium of \$2,082,490 and interest rates ranging from 4.6% to 6.0%. The GOB is secured by and payable with property taxes.

**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***

To the Honorable Mayor and Members of the City Council
City of Los Angeles, 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 (*Government Auditing Standards*), the financial statements of the Proposition HHH Special Revenue Fund and Debt Service Fund (collectively, the “Proposition HHH Program Funds”) of the City of Los Angeles, California (the “City”), as of and for the year ended June 30, 2024, and the related notes to the financial statements, and have issued our report thereon dated January 27, 2025. Our report includes an emphasis of matter paragraph indicating that the financial statements present only the financial position and changes in financial position of the Proposition HHH Program Funds and not the City.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City’s internal control over the Proposition HHH Program Funds’ financial reporting (internal control) as a basis for designing 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 City’s internal control related to the Proposition HHH Program Funds. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control related to the Proposition HHH Program Funds.

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 were not identified. 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Proposition HHH Program Funds' 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 financial statements. 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 entity's internal control or on compliance related to the Proposition HHH Program Funds. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance related to the Proposition HHH Program Funds. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

Los Angeles, California
January 27, 2025

**CITY OF LOS ANGELES, CALIFORNIA
PROPOSITION HHH PROGRAM FUNDS**

Schedule of Findings and Response
For the Year Ended June 30, 2024

I. Current Year Audit Findings

There were no current year audit findings.

II. Status of Prior-Year Audit Finding

2023-001 Allowance for Uncollectibles Methodology

Criteria

According to Accounting Standard (AU) 342, management is responsible for making the accounting estimates included in the financial statements. Management's judgment is normally based on its knowledge and experience about past and current events and its assumptions about conditions it expects to exist and courses of action it expects to take. Review of this estimate is also required under Section 6 of AU 342, *Internal Control Related to Accounting Estimates*; adequate review and approval of the accounting estimates by appropriate levels of authority; includes review of reasonableness of assumptions and resulting estimates and consideration of changes in previously established methods to arrive at accounting estimates.

This criteria should be applied to City's estimated allowance for uncollectibles related loans.

Condition

In FY2015, the Los Angeles Housing Department's (LAHD) Asset Management Division assisted the City's Accounting Division to analyze loan data by various loan types and determine allowance percentages for each loan type to better reflect the collectability of the loans. As implementing the revised allowance percentages would cause a significant decrease to the allowance, the management decided to take a conservative approach and spread the allowance over 5 years to ensure that the new allowance approach was proven correct and in line with market conditions. The 5-year smoothing ended in FY2019.

In FY2022, MGO brought it to the attention of management that the allowance methodology should be reviewed and evaluated on a more frequent basis.

Cause

Management noted that the City planned to revisit the methodology but were not making any revisions during the pandemic.

Effect

MGO noted that such review has not yet been performed. The total allowance for the uncollectible loans balances as of June 30, 2023, for the Fund is \$247.0 million.

CITY OF LOS ANGELES, CALIFORNIA
PROPOSITION HHH PROGRAM FUNDS
Schedule of Findings and Response (Continued)
For the Year Ended June 30, 2024

Recommendation

MGO recommends that management revisit the allowance methodology and valuation, to ensure that the loans receivable and interest receivable balances are reasonably stated. In addition, management should ensure that a review is conducted over the methodology on a periodic basis to account for current conditions in its valuation.

Views of Management

During the COVID crisis and because of material changes in both macro and micro factors, LAHD should have requested an extension for the report until it had a clearer view of the future or the reporting may prove to be inaccurate. LAHD now can better estimate allowances and portfolio values that are necessary for reporting to be reasonable. Further, there is no possibility that the portfolio value is overstated, the department has been growing substantially and its receivable balance has doubled in 4 years. LAHD will have the report ready in March 2024.

Current Year Status

In March 2024, the LAHD Asset Management Division conducted a portfolio valuation of the loans receivable and interest receivable balances as of March 1, 2024, assessing their respective collectability for various loan types. The valuation resulted in recommended allowance percentages, leading to a substantial increase in the allowance for uncollectibles for the year ended June 30, 2024. Additionally, the LAHD Asset Management Division recommended that valuation and allowance calculation be performed every four years. Thus, this finding has been resolved as of June 30, 2024.