




L.A. LOMOD

INTEROFFICE MEMORANDUM

DATE: December 8, 2020

TO: L. A. LOMOD BOARD OF DIRECTORS

FROM: Connie Loyola, President  Digitally signed by Connie Loyola
DN: cn=Connie Loyola, o=L.A. LOMOD
Corporation, ou=President/Director,
email=connie.loyola@hacla.org, c=US
Date: 2020.12.08 15:00:03 -08'00'

SUBJECT: FISCAL YEAR 2019 ANNUAL AUDITED FINANCIAL STATEMENTS

Attached is the Fiscal Year 2019 independent auditor's report from MGO Certified Public Accountants (MGO), which covers L.A. LOMOD's financial activities from January 1, 2019 to December 31, 2019. The audit shows a \$1.7 million increase in administrative fees (8.4%) and a \$48 million increase in HAP (8.7%) from the previous fiscal year due to newly assigned properties and an increase in Fair Market Rents (FMRs). Subsidies to the Housing Authority amounted to \$5 million in 2019, a decrease of \$2 million as compared to prior year. L.A. LOMOD's total net position increased by \$10.8 million to \$52 million.

Attachment

**LOS ANGELES LOMOD CORPORATION
(A Component Unit of the Housing Authority
of the City of Los Angeles)**

**Basic Financial Statements and
Independent Auditor's Reports**

For the Years Ended December 31, 2019 and 2018



**Certified
Public
Accountants**

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LOS ANGELES LOMOD CORPORATION
(A Component Unit of the Housing Authority of the City of Los Angeles)
Basic Financial Statements and Independent Auditor's Reports
For the Years Ended December 31, 2019 and 2018

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Certified
Public
Accountants

Independent Auditor's Report

Board of Directors
Los Angeles LOMOD Corporation
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Los Angeles LOMOD Corporation (LOMOD Corporation), a California nonprofit public benefit corporation and a component unit of the Housing Authority of the City of Los Angeles (Housing Authority), as of and for the years ended December 31, 2019 and 2018, and the related notes to the basic financial statements, which collectively comprise the LOMOD Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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 LOMOD Corporation, as of December 31, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2020, on our consideration of the LOMOD Corporation'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the LOMOD Corporation's 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 LOMOD Corporation's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Los Angeles, California
July 21, 2020

LOS ANGELES LOMOD CORPORATION
(A Component Unit of the Housing Authority of the City of Los Angeles)
Statements of Net Position
December 31, 2019 and 2018

Assets	2019	2018
Current assets:		
Cash and cash equivalents	\$ 47,945,793	\$ 37,700,495
Accounts receivable - HUD	3,854,842	3,555,608
Accounts receivable - vendor	17,057	-
Prepaid expenses	300,809	280,887
Restricted cash - tenant assistance payments	656,756	49,625
Total current assets	<u>52,775,257</u>	<u>41,586,615</u>
Noncurrent assets:		
Capital assets, net	<u>348,982</u>	-
Total assets	<u>53,261,739</u>	<u>41,586,615</u>
Liabilities and Net Position		
Current liabilities:		
Accounts payable	48,692	31,417
Accrued liabilities	<u>1,043,728</u>	<u>406,548</u>
Total current liabilities	<u>1,092,420</u>	<u>437,965</u>
Net position:		
Net investment in capital assets	348,982	-
Unrestricted	<u>51,682,837</u>	<u>41,148,650</u>
Total net position	<u>\$ 52,031,819</u>	<u>\$ 41,148,650</u>

See accompanying notes to basic financial statements.

LOS ANGELES LOMOD CORPORATION
(A Component Unit of the Housing Authority of the City of Los Angeles)
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Administrative fees	\$ 21,863,937	\$ 20,171,948
Tenant assistance payments	602,609,739	554,358,793
Other income	629,991	654,951
Total operating revenues	<u>625,103,667</u>	<u>575,185,692</u>
Operating expenses:		
Administrative expenses	6,856,163	6,573,960
Ordinary maintenance	6,748	12,923
General expense	306,238	280,295
Tenant assistance payments	602,609,739	554,358,793
Depreciation	49,510	-
Total operating expenses	<u>609,828,398</u>	<u>561,225,971</u>
Operating income	<u>15,275,269</u>	<u>13,959,721</u>
Nonoperating revenues (expenses):		
Interest income	858,064	536,934
Subsidies to the Housing Authority	(5,250,164)	(7,070,648)
Total nonoperating revenues (expenses)	<u>(4,392,100)</u>	<u>(6,533,714)</u>
Change in net position	10,883,169	7,426,007
Net position at beginning of year	<u>41,148,650</u>	<u>33,722,643</u>
Net position at end of year	<u>\$ 52,031,819</u>	<u>\$ 41,148,650</u>

See accompanying notes to basic financial statements.

LOS ANGELES LOMOD CORPORATION
(A Component Unit of the Housing Authority of the City of Los Angeles)
Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Cash received from HUD	\$ 602,310,505	\$ 554,095,128
Cash received from administrative fees and other sources	22,476,871	20,826,899
Cash payments to suppliers for goods and services	(605,437,329)	(558,098,583)
Cash payments to employees	(3,707,026)	(3,469,352)
Net cash provided by operating activities	<u>15,643,021</u>	<u>13,354,092</u>
Cash flows from non-capital financing activities:		
Subsidies and other payments to the Housing Authority	(5,250,164)	(7,070,648)
Net cash used for non-capital financing activities	<u>(5,250,164)</u>	<u>(7,070,648)</u>
Cash flows from investing activities:		
Interest income	858,064	536,934
Net cash provided by investing activities	<u>858,064</u>	<u>536,934</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	(398,492)	-
Net cash used for financing activities	<u>(398,492)</u>	<u>-</u>
Net increase in cash and cash equivalents	10,852,429	6,820,378
Cash and cash equivalents at beginning of year	37,750,120	30,929,742
Cash and cash equivalents at end of year	<u>\$ 48,602,549</u>	<u>\$ 37,750,120</u>
Cash and cash equivalents components:		
Cash and cash equivalents	\$ 47,945,793	\$ 37,700,495
Restricted cash	656,756	49,625
Total cash and cash equivalents	<u>\$ 48,602,549</u>	<u>\$ 37,750,120</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 15,275,269	\$ 13,959,721
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	49,510	-
Increase in accounts receivable - HUD	(299,234)	(257,987)
Increase in accounts receivable - vendor	(17,057)	-
Increase in prepaid expenses	(19,922)	(91)
Increase in accounts payable	17,275	10,537
Decrease in accounts payable - HUD	-	(5,678)
Increase (decrease) in accrued liabilities	637,180	(352,410)
Net cash provided by operating activities	<u>\$ 15,643,021</u>	<u>\$ 13,354,092</u>

See accompanying notes to basic financial statements.

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(1) Reporting Entity and Program Descriptions

The basic financial statements of the Los Angeles LOMOD Corporation (LOMOD Corporation) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the LOMOD Corporation are described in Note 2.

Reporting Entity

The LOMOD Corporation is created as a nonprofit public benefit corporation and is not organized for the private gain of any person. The specific purpose for which the LOMOD Corporation is organized is to provide low cost housing to individuals meeting criteria established by the United States Department of Housing and Urban Development (HUD). The LOMOD Corporation acts as a Public Housing Agency (PHA) and is solely responsible for performance based multi-family Section 8 contract administration services. The LOMOD Corporation also created a for-profit consulting department, E3 Housing Solutions (E3), to assist owners of affordable housing in complying with HUD regulations. The primary activity for E3 consisted of providing consulting services in 2019.

The LOMOD Corporation is governed by a three-member board of directors. The Housing Authority's Board of Commissioners appoints all of the organization's governing body and the Housing Authority Board must approve all amendments to the Articles and Bylaws of the LOMOD Corporation, and there is a financial benefit or burden relationship between the Housing Authority and the LOMOD Corporation. Therefore, the LOMOD Corporation is considered a blended component unit of the Housing Authority.

(2) Summary of Significant Accounting Policies

(a) Fund Accounting

The basic accounting and reporting entity is a "fund." A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts, recording resources, related liabilities, obligations, and equity amounts segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The LOMOD Corporation applies all applicable GASB pronouncements in accounting and reporting for its proprietary operations.

Enterprise funds are used to account for operations for which a fee is charged to external users for goods or services. The LOMOD Corporation accounts for all of its activities in an enterprise fund which is considered a business-type activities.

(b) Measurement Focus and Basis of Accounting

Enterprise funds are accounted for on an economic resources measurement focus. Accordingly, all assets and liabilities are included in the statements of net position, and the reported fund equity provides an indication of the historical net position of the fund. Operating statements for enterprise fund types report increases (revenues) and decreases (expenses) in total historical net position. Enterprise funds use the accrual basis of accounting, i.e., revenues are recognized in the period earned and expenses are recognized in the period incurred.

Enterprise funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses result from providing goods and services related to the fund's ongoing operations. The principal operating revenues of the LOMOD Corporation fund are tenant assistance payment revenues and administrative fees earned. Operating expenses include tenant assistance payments, administrative expenses, other operating expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(c) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

(d) Cash and Cash Equivalents

Cash includes amounts in checking and savings accounts. For purposes of the statement of cash flows, cash equivalents is defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates and have an original maturity date of three months or less from the date of purchase.

(e) Restricted Cash

The LOMOD Corporation receives tenant assistance payments on a regular basis from HUD and distributes the tenant assistance payments to contracted landlords. As of December 31, 2019 and 2018, the tenant assistance payments not yet distributed to the landlords are \$656,756 and \$49,625, respectively.

(f) Accounts Receivable - HUD

The amounts reported as accounts receivable – HUD represent year-end administrative fees earned that have not yet been received. As of December 31, 2019 and 2018, the accounts receivable – HUD is \$3,854,842 and \$3,555,608, respectively. No allowance for doubtful accounts has been recorded, as amounts due from HUD are collectible.

LOS ANGELES LOMOD CORPORATION
(A Component Unit of the Housing Authority of the City of Los Angeles)
Notes to Basic Financial Statements (Continued)
For the Years Ended December 31, 2019 and 2018

(g) Capital Assets

Any single capital asset purchased by the LOMOD Corporation with a cost greater than or equal to \$5,000 and an estimated useful life of greater than one year is capitalized and depreciated. Depreciation is charged to operations using the straight-line method based on the estimated useful life of the related assets. The estimated useful lives of the assets are as follows:

	<u>Years</u>
Automobiles	5 years
Furniture and equipment	3 years

(h) Net Position

Net position comprises the various net earnings from operating income, nonoperating revenues and expenses, capital contributions, and special or extraordinary items, if any. Net position is classified in the following three components:

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation.

Restricted – This component of net position consists of restricted assets reduced by liabilities related to those assets.

Unrestricted – This component of net position consists of the net amount of the assets that are not included in the determination of net investment in capital assets or the restricted component of net position.

When both restricted and unrestricted resources are available for use, it is the LOMOD Corporation's policy to use restricted resources first, then unrestricted resources as they are needed.

(i) Administrative Fees

Administrative fees revenues are recognized when services are rendered. The total administrative fees earned for the years ended December 31, 2019 and 2018 are \$21,863,937 and \$20,171,948, respectively.

(j) Administrative Expenses

The total administrative expenses incurred for the years ended December 31, 2019 and 2018 are \$6,856,163 and \$6,573,960, respectively. Management fees are charged by the Housing Authority pursuant to a Memorandum of Understanding between the Housing Authority and the LOMOD Corporation dated November 14, 2003, and as amended December 20, 2018.

LOS ANGELES LOMOD CORPORATION
(A Component Unit of the Housing Authority of the City of Los Angeles)
Notes to Basic Financial Statements (Continued)
For the Years Ended December 31, 2019 and 2018

(j) Administrative Expenses (Continued)

	<u>2019</u>	<u>2018</u>
Administrative expenses		
Administrative salaries and benefits	\$ 3,707,026	\$ 3,469,352
Auditing fees	100,301	11,500
Management fees	2,186,394	2,017,195
Advertising and marketing	11,761	17,430
Office expenses	443,137	693,120
Legal expenses	3,361	74,515
Travel	32,619	45,313
Other administrative expenses	371,564	245,535
Total operating expenses	<u>\$ 6,856,163</u>	<u>\$ 6,573,960</u>

(k) Income Taxes

The LOMOD Corporation is a nonprofit public benefit corporation, and as such, is exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code and from state income taxes under Section 23701(f) of the California Revenue and Taxation Code. Therefore, no provision is made for federal and state income taxes. In late 2016, a for-profit department called E3 Housing Solutions was added to the LOMOD Corporation activities. Income from E3 is deemed as unrelated business income subject to federal and state income taxes. The LOMOD Corporation will make provisions for these taxes should E3 have any taxable income.

(l) Reclassification

Certain accounts presented in the 2018 financial statements have been reclassified to be consistent with the current year's presentation. Such reclassification has no effect on the net change in financial position and net position as previously reported.

(3) Cash

Cash as of December 31, 2019 and 2018 is classified in the accompanying statements of net position as follows:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 47,945,793	\$ 37,700,495
Restricted cash -tenant assistance payments	656,756	49,625
Total cash	<u>\$ 48,602,549</u>	<u>\$ 37,750,120</u>

LOS ANGELES LOMOD CORPORATION
(A Component Unit of the Housing Authority of the City of Los Angeles)
 Notes to Basic Financial Statements (Continued)
 For the Years Ended December 31, 2019 and 2018

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 LOMOD Corporation follows the parameters established by the Housing Authority’s Investment Policy. The California Government Code (CGC) and the Housing Authority 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 CGC requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the LOMOD Corporation deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of December 31, 2019 and 2018, the LOMOD Corporation was not exposed to custodial credit risk.

(4) Capital Assets

A summary of changes in capital assets for the years ended December 31, 2019 and 2018 is as follows:

	Balance at Jan. 1, 2019	Additions	Dispositions	Balance at Dec. 31, 2019
Capital assets being depreciated:				
Furniture and equipment	\$ 292,808	\$ 398,492	\$ -	\$ 691,300
Total capital assets being depreciated	<u>292,808</u>	<u>398,492</u>	<u>-</u>	<u>691,300</u>
Less accumulated depreciation for:				
Furniture and equipment	(292,808)	(49,510)	-	(342,318)
Total accumulated depreciation	<u>(292,808)</u>	<u>(49,510)</u>	<u>-</u>	<u>(342,318)</u>
Capital assets, net	<u>\$ -</u>	<u>\$ 348,982</u>	<u>\$ -</u>	<u>\$ 348,982</u>

Depreciation expense for the year ended December 31, 2019 was \$49,510. The addition of \$398,492 were due to the purchase of 2019 Chevrolet Bolt vehicles.

	Balance at Jan. 1, 2018	Additions	Dispositions	Balance at Dec. 31, 2018
Capital assets being depreciated:				
Furniture and equipment	\$ 292,808	\$ -	\$ -	\$ 292,808
Total capital assets being depreciated	<u>292,808</u>	<u>-</u>	<u>-</u>	<u>292,808</u>
Less accumulated depreciation for:				
Furniture and equipment	(292,808)	-	-	(292,808)
Total accumulated depreciation	<u>(292,808)</u>	<u>-</u>	<u>-</u>	<u>(292,808)</u>
Capital assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense for the year ended December 31, 2018 was \$0.

(5) Department of Housing and Urban Development Contract

The LOMOD Corporation receives a substantial portion of its operating revenues under a Section 8 Annual Contributions Contract, which has been periodically renewed by the Department of Housing and Urban Development (HUD). These revenues are deemed to be earned as reimbursable expenses are incurred. These revenues (tenant assistance payments and administrative fees) are recognized as revenue in the accompanying basic financial statements and are subject to the results of periodic audits performed by HUD. The results of those audits may result in certain amounts of revenues received by the LOMOD Corporation being paid back to HUD.

In 2011, HUD initiated a competitive bid process for contract renewals; however, this process was the subject of extensive litigation. In 2015, the United States Supreme Court ended the litigation forcing HUD to rebid all contracts. In late 2017, HUD issued a draft RFP and solicited comments. Based on those comments, HUD has rescinded the RFP pending further revision. As such, the current contract extension is through January 31, 2021.

(6) Defined Contribution Pension Plan

On January 1, 2004, the LOMOD Corporation adopted a 401(k) profit sharing plan. The plan is a salary reduction plan allowing employees to defer up to 92 percent of their earnings, on a pre-tax basis, up to a maximum amount of \$19,000 per year or \$25,000 per year if older than age 50 for the years ended December 31, 2019 and 2018. All employees, full-time and part-time that are at least 21 years old, are eligible participants and are 100 percent vested upon participation in the plan. The LOMOD Corporation matches 3 percent of eligible employees' salary, provided that they are at least 21 years of age and worked for the LOMOD Corporation for a minimum of 500 hours during the calendar year. For the years ended December 31, 2019 and 2018, the LOMOD Corporation contributed \$87,162 and \$84,028, respectively.

(7) Commitments, Litigation and Contingencies

In the normal course of operations, the LOMOD Corporation has been named as a defendant in a legal action. In the opinion of the LOMOD Corporation's general counsel, the ultimate liability from such action will not have a material adverse effect on the LOMOD Corporation's financial position.

(8) Subsequent Events

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders for all but those deemed essential services. While the disruption is currently expected to be temporary, the extent to which it may impact the operations and financial results of LOMOD Corporation will depend on future developments, which are highly uncertain and cannot be predicted. Management has taken steps to actively monitor cash flow and HUD funding and confirms that as of the opinion date, there has been no significant disruption to the operations of LOMOD Corporation. LOMOD Corporation has not included any contingencies in the financial statements specific to this issue.



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

Board of Directors
Los Angeles LOMOD Corporation
Los Angeles, California

We have audited, 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, the financial statements of the Los Angeles LOMOD Corporation (LOMOD Corporation), a California nonprofit public benefit corporation and a component unit of the Housing Authority of the City of Los Angeles (Housing Authority), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the LOMOD Corporation's basic financial statements, and have issued our report thereon dated July 21, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the LOMOD Corporation'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 LOMOD Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the LOMOD Corporation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 LOMOD Corporation'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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Los Angeles, California

July 21, 2020