

**PASADENA HOUSING SUCCESSOR  
CITY OF PASADENA, CALIFORNIA**

**BASIC FINANCIAL STATEMENTS**

**FISCAL YEAR ENDED JUNE 30, 2015**

PASADENA HOUSING SUCCESSOR  
CITY OF PASADENA, CALIFORNIA

BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2015

PASADENA HOUSING SUCCESSOR  
CITY OF PASADENA, CALIFORNIA

BASIC FINANCIAL STATEMENTS

JUNE 30, 2015

TABLE OF CONTENTS

	<u>Page Number</u>
FINANCIAL SECTION	
Independent Auditors' Report.....	1
BASIC FINANCIAL STATEMENTS	
Statement of Net Position.....	4
Statement of Activities .....	5
Balance Sheet .....	6
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position.....	7
Statement of Revenues, Expenditures and Changes in Fund Balances .....	8
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	9
Notes to Financial Statements.....	10
REQUIRED SUPPLEMENTAL INFORMATION	
Schedule of Changes in Net Pension Liability and Related Ratios.....	21
Schedule of Plan Contributions .....	22
Budgetary Comparison Schedule.....	23
Notes to Required Supplementary Information .....	24
SUPPLEMENTAL INFORMATION	
Computation of Housing Successor Excess/Surplus .....	25
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> .....	26
Independent Auditors' Report on Compliance with Applicable Requirement and on Internal Control Over Compliance .....	28

## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council  
Pasadena Housing Successor  
City of Pasadena, California

### **Report on Financial Statements**

We have audited the accompanying financial statements of the Pasadena Housing Successor, (the Housing Successor), a Special Revenue Fund of the City of Pasadena, California, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Housing Successor'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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 opinions.



To the Honorable Mayor and Members of the City Council  
Pasadena Housing Successor  
City of Pasadena, California

### **Opinions**

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

### **Change in Accounting Principle**

As discussed in Note 1 to the financial statements, in 2015 the Housing Successor adopted new accounting guidance, *GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* as amended by *GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date*.

### **Emphasis of Matters**

As discussed in Note 1, the financial statements present on the Housing Successor, a special revenue fund of the City of Pasadena, and do not purport to, and do not, present fairly the financial position of the City of Pasadena, California, as of June 30, 2015, the changes in its financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, the schedule of changes in the net pension liability and related ratios, and the schedule of plan contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted 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.



To the Honorable Mayor and Members of the City Council  
Pasadena Housing Successor  
City of Pasadena, California

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying report on excess/surplus calculation is presented for purposes of additional analysis only and is not a required part of the financial statements. Such information is the responsibility of management and was derived from the financial statements. The report on excess/surplus calculation has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not 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 December 29, 2015 on our consideration of the Housing Successor'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 Housing Successor's internal control over financial reporting and compliance.

*Lance, Solt & Lughard, LLP*

Brea, California  
December 29, 2015

PASADENA HOUSING SUCCESSOR

STATEMENT OF NET POSITION  
JUNE 30, 2015

---

	<u>Governmental Activities</u>
<b>Assets:</b>	
Cash and investments	\$ 7,924,798
Receivables:	
Accounts	5,145
Notes	22,594,712
Allowance for uncollectible loans	(10,810,507)
Accrued interest	1,792
Property held for resale	<u>1,400,000</u>
<b>Total Assets</b>	<b><u>21,115,940</u></b>
<b>Deferred Outflows of Resources:</b>	
Deferred pension related item	<u>157</u>
<b>Total Deferred Outflows of Resources</b>	<b><u>157</u></b>
<b>Liabilities:</b>	
Net pension liability	<u>205,769</u>
<b>Total Liabilities</b>	<b><u>205,769</u></b>
<b>Deferred Inflows of Resources:</b>	
Deferred pension related item	<u>43,263</u>
<b>Total Deferred Inflows of Resources</b>	<b><u>43,263</u></b>
<b>Net Position:</b>	
Restricted for:	
Community development projects	<u>20,867,065</u>
<b>Total Net Position</b>	<b><u><u>\$ 20,867,065</u></u></b>

PASADENA HOUSING SUCCESSOR

STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2015

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>	<u>Governmental Activities</u>
<b>Functions/Programs</b>				
<b>Primary Government:</b>				
Governmental Activities:				
Community development	\$ 24,746	\$ 322	\$ 377,481	\$ 353,057
<b>Total Governmental Activities</b>	<u>\$ 24,746</u>	<u>\$ 322</u>	<u>\$ 377,481</u>	<u>353,057</u>
<b>General Revenues:</b>				
Rental income				62,041
Miscellaneous				227,449
<b>Total General Revenues</b>				<u>289,490</u>
Change in Net Position				642,547
Net Position at Beginning of Year				21,394,449
Restatement of Net Position				(1,169,931)
<b>Net Position at End of Year</b>				<u>\$ 20,867,065</u>

PASADENA HOUSING SUCCESSOR

**BALANCE SHEET**  
**JUNE 30, 2015**

	<u>Housing Successor Fund</u>
<b>Assets:</b>	
Cash and cash equivalents	\$ 7,924,798
Receivables:	
Accounts	5,145
Notes	22,594,712
Allowance for uncollectible notes	(10,810,507)
Accrued interest	1,792
Property held for resale	<u>1,400,000</u>
<b>Total Assets</b>	<b><u><u>\$ 21,115,940</u></u></b>
<b>Fund Balances:</b>	
<b>Restricted for:</b>	
Community development projects	<u>\$ 21,115,940</u>
<b>Total Fund Balances</b>	<b><u><u>\$ 21,115,940</u></u></b>

PASADENA HOUSING SUCCESSOR

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2015

---

Fund balances of governmental funds	\$ 21,115,940
Amounts reported for governmental activities in the statement of net position are different because:	
Deferred outflows related to contributions made after the actuarial measurement date for the net pension liability	157
Long-term debt and compensated absences that have not been included in the governmental fund activity: Net pension liability	(205,769)
Deferred inflows related to the net difference between projected and actual earnings on pension plan investments	<u>(43,263)</u>
<b>Net Position of governmental activities</b>	<b><u><u>\$ 20,867,065</u></u></b>

PASADENA HOUSING SUCCESSOR

STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2015

	<u>Housing Successor Fund</u>
<b>Revenues:</b>	
Charges for services	\$ 322
Rental income	62,041
Contributions	377,481
Miscellaneous and other revenue	227,449
	<u>667,293</u>
<b>Total Revenues</b>	<b>667,293</b>
<b>Expenditures:</b>	
Current:	
Housing	12,322
	<u>12,322</u>
<b>Total Expenditures</b>	<b>12,322</b>
Net Change in Fund Balances	<u>654,971</u>
Fund Balances, Beginning of Year, as previously reported	21,394,449
Restatements	<u>(933,480)</u>
Fund Balances, Beginning of Year, as restated	<u>20,460,969</u>
<b>Fund Balances, End of Year</b>	<b><u>\$ 21,115,940</u></b>

PASADENA HOUSING SUCCESSOR

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2015

---

Net change in fund balances - total governmental funds	\$ 654,971
Amounts reported for governmental activities in the statement of activities are different because:	
Pension obligation expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	<u>(12,424)</u>
<b>Change in net position of governmental activities</b>	<b><u><u>\$ 642,547</u></u></b>

**I. SIGNIFICANT ACCOUNTING POLICIES**

**Note 1: Summary of Significant Accounting Policies**

**a. Financial Reporting Entity**

The accompanying financial statements present only the Pasadena Housing Successor, a Special Revenue Fund of the City of Pasadena, California (the City) and do not include any other funds of the City. The City's basic financial statements are available at City Hall.

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 ("the Bill") that provides for the dissolution of all redevelopment agencies in the State of California. The Bill impacted the reporting entity of the City of Pasadena that previously had reported a redevelopment agency within the report entity of the City as a blended component unit.

On February 11, 2013, and in accordance with California Health and Safety Code Section 34176, City Council of Pasadena elected that the City retain the housing assets and housing function of the former redevelopment agency. The City continues to report the housing assets and functions in the government special revenue fund designated City Housing Successor.

The Housing Successor accounts for transactions related to affordable housing activities. Revenues include bond proceeds held by the Pasadena Successor Agency that will be transferred for use into this fund for affordable housing activities, contributions from the City of Pasadena, investment earnings, rental income, loan repayments and interest income.

**b. Basis of Presentation**

The Housing Successor's fund financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the governmental activities of the Housing Successor. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

While separate government-wide and fund financial statements are presented, they are interrelated.

PASADENA HOUSING SUCCESSOR

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2015

---

Note 1: Summary of Significant Accounting Policies (Continued)

**c. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all economic resources and obligations of the reporting government (both current and long-term) are reported in the government-wide financial statements. Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities are recognized in accordance with various GASB Statements.

In the fund financial statements, governmental funds are presented using the Modified-accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Measurable means that the amounts can be estimated, or otherwise determined. Available means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The Housing Successor uses a sixty-day availability period. The Housing Successor accrues the following revenue types: taxes, licenses, fines and forfeits, and miscellaneous revenues

**d. Assets, Liabilities and Net Position or Equity**

*Cash and Investments*

Investments are reported in the accompanying financial statements at fair value based on quoted market prices, except for certain certificates of deposit, money market investments that mature within one year of acquisition and investment contracts that are reported at cost because they are not transferable, they have terms that are not affected by changes in market interest rates, and provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors.

Both realized and unrealized changes in fair value that occur during a fiscal year are recognized and recorded as net changes in fair value of investments. Investment earnings include interest earnings and all other investment income.

The City pools cash and investments of all funds, except for certain fund specific City held portfolios, deferred compensation assets, and assets held by fiscal agents. The Successor Housing fund's share in this pool is displayed in the accompanying financial statements as cash and investments. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance.

The City enters into interest rate swap agreements to modify rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements.

*Property Held for Resale*

Land held for resale represents land that was acquired for resale in accordance with the objective of the former Pasadena Community Development Commission (PCDC) project area.

PASADENA HOUSING SUCCESSOR

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2015

---

**Note 1: Summary of Significant Accounting Policies (Continued)**

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 that provides for the dissolution of all redevelopment agencies in California. The Bill provides that upon dissolution of a redevelopment agency, either the City or another Unit of Local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. The City Council elected to become the Successor Agency on February 11, 2013.

*Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of net position and 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 a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. The Housing Successor only has one item that qualifies for reporting in this category. Deferred outflows relating to the net pension liability reported in the government-wide statement of net position. These outflows are the results of contributions made after the measurement period, which are expensed in the following year.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Housing Successor has one type of this item. Deferred inflows relating to the net pension liability reported in the government-wide statement of net position. These inflows are the result of the net difference between projected and actual earnings on pension plan investments.

*Pensions*

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Government of Example's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

*Fund Balance Flow Assumptions*

Sometimes the Housing Successor will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Housing Successor's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

## PASADENA HOUSING SUCCESSOR

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2015

---

#### Note 1: Summary of Significant Accounting Policies (Continued)

##### *Fund Balance*

In the fund financial statements, The Housing Successor fund balance is made up of the following components:

- Restricted fund balance is the portion of fund balance that is subject to externally enforceable limitations by law, enabling legislation or limitations imposed by creditors or grantors.
- Committed fund balance is the portion of fund balance that can be used only for the specific purposes determined by a formal action of the City Council.
- Assigned fund balance includes amounts that are designated by City Council for specific purposes.
- Unassigned fund balance is the residual classification that includes all spendable amounts not contained in the other classifications.

The accounting policies of the Housing Successor consider restricted fund balance to have been spent first when expenditures are incurred for purposes for which both the restricted and unrestricted fund balance is available. Similarly, when expenditures are incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the Housing Successor considers committed amounts to be reduced first, followed by assigned and then unassigned amounts.

##### *Net Position Flow Assumption:*

Sometimes the Housing Successor will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

#### **d. Accounting Changes**

In June 2012, the GASB issued GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27, to improve the guidance for accounting and reporting on the pensions that governments provide to their employees. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the government-wide statement of activities.

In November 2013, the GASB issued Statement No. 71, Pension Transition for Contributions made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68, which provides guidance to state and local governments clarifying the transition provisions for GASB Statement No. 68 regarding pension contributions made after the measurement date. The Housing Successor has fully conformed to the requirements of this statement for the fiscal year ending June 30, 2015.

PASADENA HOUSING SUCCESSOR

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2015

---

II. DETAILED NOTES

**Note 2: Cash and Cash Equivalents**

As of June 30, 2015, cash and investments were reported in the accompanying financial statements as follows:

Deposits with financial institutions	<u>\$ 7,924,798</u>
Total cash and cash equivalents	<u>\$ 7,924,798</u>

The Housing Successor's fund is pooled with the City of Pasadena's cash and investments in order to generate optimum interest income. The information required by GASB Statement No. 40 related to authorized investments, credit risk, etc. is available in the annual report of the City.

**Note 3: Loans Receivable**

The former redevelopment agency made loans to assist in the development of affordable rental housing projects and the purchase of homes by homebuyers. These loans are secured by trust deeds and were funded with redevelopment low-moderate income housing set-aside funds. These notes have various terms, including maturities ranging from 5 to 45 years and interest rates ranging from 1.5% to 11%. Due to the uncertainty of their collectability at June 30, 2015, The City has recorded an allowance for uncollectibles of \$10,810,507. At June 30, 2015 the Long term receivable balance was:

\$ 22,594,712

**Note 4: Pensions**

***Plan Description***

All qualified permanent and probationary Housing Successor employees are eligible to participate in the City's Miscellaneous Plan, agent multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

***Benefits Provided***

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits

**PASADENA HOUSING SUCCESSOR**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2015**

---

**Note 4: Pensions (Continued)**

after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plan provisions and benefits in effect at June 30, 2015, are summarized as follows:

<b>Miscellaneous Plan</b>	
	Prior to
Hire date	January 1, 2013
Benefit formula	2.5% @ 55
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	50
Monthly benefits, as a % of eligible compensation	2.00% to 2.50%
Required employee contribution rates	7.974%
Required employer contribution rates	17.377%

***Employees Covered***

At June 30, 2015, the following employees were covered by the benefit terms of the plan:

Inactive employees or beneficiaries currently receiving benefits	-
Inactive employees entitled to but not yet receiving benefits	-
Active employees	2
<b>Total</b>	<b>2</b>

***Contribution***

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

PASADENA HOUSING SUCCESSOR

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2015

---

Note 4: Pensions (Continued)

**Net Pension Liability**

The Housing Successor's net pension liability for each Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions	
Discount Rate	7.50%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality Rate Table (1)	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

**Discount Rate**

The discount rate used to measure the total pension liability was 7.50%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent

PASADENA HOUSING SUCCESSOR

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2015

**Note 4: Pensions (Continued)**

investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-2018 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

<b>Asset Class</b>	<b>New Strategic Allocation</b>	<b>Real Return Years 1 - 10 (1)</b>	<b>Real Return Years 11+ (2)</b>
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00	0.99	2.43
Inflation Sensitive	6.00	0.45	3.36
Private Equity	12.00	6.83	6.95
Real Estate	11.00	4.50	5.13
Infrastructure and Forestland	3.00	4.50	5.09
Liquidity	2.00	(0.55)	(1.05)

(1) An expected inflation of 2.5% used for this period

(2) An expected inflation of 3.0% used for this period

PASADENA HOUSING SUCCESSOR

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2015

Note 4: Pensions (Continued)

**Changes in the Net Pension Liability**

The following table shows the changes in net pension liability recognized over the measurement period.

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Assets)
	(a)	(b)	(c)=(a)-(b)
Balance at: 6/30/2013 (Valuation Date) (1)	\$ 789,542	\$ 546,680	\$ 242,862
Changes Recognized for the Measurement Period:			
Service Cost	14,746	-	14,746
Interest on the Total Pension Liability	58,359	-	58,359
Contribution from the Employer	-	6,411	(6,411)
Contributions from Employees	-	9,331	(9,331)
Net Investment Income (2)	-	94,456	(94,456)
Benefit Payments including Refunds of Employee Contributions	(37,603)	(37,603)	-
Net Changes During 2013-14	35,502	72,595	(37,093)
Balance at: 6/30/2014 (Measurement Date) (1)	<b>\$ 825,044</b>	<b>\$ 619,275</b>	<b>\$ 205,769</b>

- (1) The fiduciary net position includes receivables for employee service buybacks, deficiency reserves, fiduciary self-insurance and OPEB expense. This may differ from the plan assets reported in the funding actuarial valuation report.
- (2) Net of administrative expenses.

**Sensitivity of the Net Pension Liability to Changes in the Discount Rates**

The following presents the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50 percent) or 1 percentage-point higher (8.50 percent) than the current rate:

	Discount Rate - 1% (6.50%)	Current Discount Rate (7.5%)	Discount Rate +1% (8.5%)
Plan's Net Pension Liability/(Assets)	\$ 301,344	\$ 205,769	\$ 109,624

**Pension Plan Fiduciary Net Position**

Detailed information about the plan's fiduciary net position is available in the separately issued CalPERS financial reports. See CalPERS website for additional information.

PASADENA HOUSING SUCCESSOR

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2015

Note 4: Pensions (Continued)

***Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions***

For the year ended June 30, 2015, the Housing Successor incurred a pension expense of \$12,581 for the Plan. At June 30, 2015, the Housing Successor has deferred outflows and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 157	\$ -
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	(43,263)
<b>Total</b>	<b>\$ 157</b>	<b>\$ (43,263)</b>

The \$157 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows or deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Period ended June 30:	Deferred Outflows/(Inflows) of Resources
2015	\$ (10,816)
2016	(10,816)
2017	(10,816)
2018	(10,815)

Note 5: Prior Period Adjustments

GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27, to improve the guidance for accounting and reporting on the pensions that governments provide to their employees. The accounting changes of this statement should be applied retroactively; therefore the City reported a restatement decreasing the governmental activities beginning net position by \$236,451 to establish the initial net pension liability.

In fiscal year 2012, as part of the accounting treatment in the dissolution of Redevelopment per Assembly Bill 1X 26, some Notes Receivable loans were recorded in some funds in error. In fiscal year 2015, these Note Receivables loans were reclassified and resulted in a restatement decreasing the beginning fund balance of the Housing Successor Fund by \$1,968,182.

**PASADENA HOUSING SUCCESSOR**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2015**

---

**Note 5: Prior Period Adjustments (Continued)**

Additionally the City transferred \$339,697 Casa Maria housing sales proceeds balance from the Housing Successor Fund to the Housing and Community Development Fund. Pursuant to the Health and Safety Code (HSC), section 34179.6(c), the City Housing Successor submitted an oversight board approved Low and Moderate Income Housing Fund (LMIHF) Due Diligence Review (DDR) to the California Department of Finance (DOF) on October 12, 2012. The purpose of the review was to determine the amount of cash and cash equivalents available for distribution to the affected taxing entities. DOF issued an LMIHF DDR determination letter on November 9, 2012, requiring the City to transfer \$339,697 back to the Housing Successor Fund from the Housing and Community Development Fund. Subsequently, the City requested a Meet and Confer Session on one or more items adjusted by DOF, but DOF upheld its previous position. This resulted in the restatement increasing the beginning fund balance of the Housing Successor Fund by that amount.

From fiscal years 2013 to 2014, some Note Receivable loans and Allowance for Uncollectible Long-Term Receivables were recorded in some funds in error. In fiscal year 2015, these Note Receivables loans and Allowance for Uncollectible Long-Term Receivables were reclassified/adjusted and resulted in the restatement increasing the beginning fund balance of the Housing Successor Fund by \$338,655.

From fiscal years 2013 to 2014, the Housing Successor Fund incurred some administrative costs that were not reimbursed by the Recognized Obligations Payment Schedule (ROP). These expenses were transferred to the Housing and Community Development Fund in fiscal year 2015. This resulted in the restatement increasing the beginning fund balance of the Housing Successor Fund by \$356,350.

PASADENA HOUSING SUCCESSOR

MISCELLANEOUS PLAN  
 SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
 AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS (1)

MEASUREMENT PERIOD	2015
<b>TOTAL PENSION LIABILITY</b>	
Service Cost	\$ 14,746
Interest	58,359
Benefit Payments, Including Refunds of employee Contributions	(37,603)
<b>Net Change in Total Pension Liability</b>	<b>35,502</b>
<b>Total Pension Liability - Beginning</b>	<b>789,542</b>
<b>Total Pension Liability - Ending (a)</b>	<b>\$ 825,044</b>
<b>PLAN FIDUCIARY NET POSITION</b>	
Contribution - Employer	\$ 6,411
Contribution - Employee	9,331
Net Investment Income	94,456
Benefit Payments, Including Refunds of Employee Contributions	(37,603)
<b>Net Change in Fiduciary Net Position</b>	<b>72,595</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b>546,680</b>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 619,275</b>
<b>Plan Net Pension Liability/(Assets) - Ending (a) - (b)</b>	<b>\$ 205,769</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>75.06%</b>
<b>Covered-Employee Payroll</b>	<b>\$ 91,384</b>
<b>Plan Net Pension Liability/(Asset) as a Percentage of Covered-Employee Payroll</b>	<b>225.17%</b>

(1) Historical information is required only for measurement for which GASB 68 is applicable. Fiscal Year 2015 was the first year of implementation, therefore only one year is shown.

(2) Net of administrative expenses.

**Notes to Schedule:**

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions: There were no changes in assumptions.

**PASADENA HOUSING SUCCESSOR**

**MISCELLANEOUS PLAN  
SCHEDULE OF PLAN CONTRIBUTIONS  
AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS (1)**

	<u>2015</u>
Actuarially Determined Contribution	\$ 157
Contribution in Relation to the Actuarially Determined Contribution	(157)
Contribution Deficiency (Excess)	<u>\$ -</u>
Covered-Employee Payroll	\$ 97,713
Contributions as a Percentage of Covered-Employee Payroll	0.16%

(1) Historical information is required only for measurement for which GASB 68 is applicable. Fiscal Year 2015 was the first year of implementation, therefore only one year is shown.

**Note to Schedule:**

Valuation Date:	June 30, 2012
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Remaining amortization period	19 Years as of Valuation Date
Assets valuation method	15-year smoothed market
Inflation	2.75%
Salary increases	3.3% to 14.2% depending on Age, Service and type
Payroll growth	3.00%
Discount rate	7.50%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

PASADENA HOUSING SUCCESSOR

BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED JUNE 30, 2015

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1, restated	\$ 20,460,969	\$ 20,460,969	\$ 20,460,969	\$ -
<b>Resources (Inflows):</b>				
Charges for services	-	-	322	322
Rental income	63,301	63,301	62,041	(1,260)
Contributions	-	-	377,481	377,481
Miscellaneous	58,019	58,019	227,449	169,430
Loan repayments	42,312	42,312	-	(42,312)
<b>Amounts Available for Appropriations</b>	<b>20,624,601</b>	<b>20,624,601</b>	<b>21,128,262</b>	<b>503,661</b>
<b>Charges to Appropriations (Outflow):</b>				
Housing	36,000	65,960	12,322	53,638
<b>Total Charges to Appropriations</b>	<b>36,000</b>	<b>65,960</b>	<b>12,322</b>	<b>53,638</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 20,588,601</b>	<b>\$ 20,558,641</b>	<b>\$ 21,115,940</b>	<b>\$ 557,299</b>

## PASADENA HOUSING SUCCESSOR

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2015

---

#### **Budget**

The City Council is required to adopt an annual budget resolution by June 30 of each fiscal year for the Pasadena Housing Successor. The budget is adopted on a basis that does not differ materially from GAAP.

An appropriated annual budget is legally adopted for the General and all Special Revenue Governmental Funds of the City of Pasadena. Annual appropriated budgets are not adopted for Debt Service Funds because bond indentures are used as the method for adequate budgetary control. Some Capital Projects Funds have annual appropriated budgets. Control over some projects is maintained by means of an annual budget; others through a project-length capital improvement budget. This project-length budget authorizes total expenditures over the duration of a construction project, rather than year by year.

The City maintains budgetary controls to ensure compliance with legal provisions embodied in the appropriated budget approved by the City Council. The level of budgetary control (the level at which expenditures cannot legally exceed the appropriated amount) is the department level and within a single fund. The City Manager may authorize transfers of appropriations within a department so long as it is within a single fund. Supplemental appropriations during the year must be approved by the City Council. All unencumbered appropriations lapse at fiscal year-end. In order to be an encumbered appropriation there must be either an approved purchase order or contract in force as of June 30.

CITY OF PASADENA HOUSING SUCCESSOR

COMPUTATION OF HOUSING SUCCESSOR  
EXCESS/SURPLUS (HSC 34176.1)

	Low and Moderate Housing Funds All Project Area July 1, 2014	(Projected) Low and Moderate Housing Funds All Project Area July 1, 2015
Opening Fund Balance	\$ 20,460,969 **	\$21,115,940
Less Unavailable Amounts:		
Land held for resale	\$ (1,400,000)	\$ (1,400,000)
Loans receivable	(12,726,273)	(11,784,206)
Restricted cash due DOF per DDR	<u>(4,128,259)</u>	<u>(4,128,259)</u>
	<u>(18,254,532)</u>	<u>(17,312,465)</u>
Available Housing Successor Funds	2,206,437	3,803,475
Limitation (greater of \$1,000,000 or four years deposits)		
Aggregate amount deposited for last four years:		
2014 - 2015	-	667,293
2013 - 2014	234,172	234,172
2012 - 2013	1,282,996	1,282,996
2011 - 2012	<u>44,354</u>	<u>44,354</u>
<b>Total</b>	<b><u>\$ 1,561,522</u></b>	<b><u>\$ 2,228,815</u></b>
<b>Base Limitation</b>	<b><u>\$ 1,000,000</u></b>	<b><u>\$ 1,000,000</u></b>
Greater amount	<u>\$ 1,561,522</u>	<u>\$ 2,228,815</u>
<b>Computed Excess/Surplus</b>	<b><u>\$ 644,915</u></b>	<b><u>\$ 1,574,660 *</u></b>

\* This is the estimated future excess/surplus in 2015/2016. Please note: If a housing successor has an excess surplus, the housing successor shall encumber the excess surplus for the purposes described in paragraph (3) of subdivision (a) of Health and Safety Code 34176.1 or transfer the funds pursuant to paragraph (2) of subdivision (c) of 34176.1 within three fiscal years. If the housing successor fails to comply with this subdivision, the housing successor, within 90 days of the end of the third fiscal year, shall transfer any excess surplus to the Department of Housing and Community Development for expenditure pursuant to the Multifamily Housing Program or the Joe Serna, Jr. Farmworker Housing Grant Program.

\*\* The July 1, 2014 fund balance was restated. Please see Footnote 5 for additional information.

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*

To the Honorable Mayor and Members of the City Council  
Pasadena Housing Successor  
City of Pasadena, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the remaining fund information of Pasadena Housing Successor, a special revenue fund of the City of Pasadena, California, (the City) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Housing Successor's basic financial statements, and have issued our report thereon dated December 29, 2015.

#### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Housing Successor's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Housing Successor's internal control. Accordingly, we do not express an opinion on the effectiveness of the Housing Successor'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 Housing Successor'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*.



To the Honorable Mayor and Members of the City Council  
Pasadena Housing Successor  
City of Pasadena, California

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

*Lance, Solt & Lughard, LLP*

Brea, California  
December 29, 2015

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH APPLICABLE  
REQUIREMENT AND ON INTERNAL CONTROL OVER COMPLIANCE

To the Honorable Mayor and Members of the City Council  
Pasadena Housing Successor  
City of Pasadena, California

**Report on Compliance for the Housing Successor**

We have audited the City of Pasadena Housing Successor's (the Housing Successor) compliance with the type of compliance requirements described in the California Health and Safety Code sections applicable to California Housing Successor Agencies for the year ending June 30, 2015.

***Management's Responsibility***

Management is responsible for compliance with the California Health and Safety Code sections applicable to California Housing Successor Agencies.

***Auditor's Responsibility***

Our responsibility is to express an opinion on the Housing Successor's compliance with the California Health and Safety Code sections applicable to California Housing Successor Agencies. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the *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 noncompliance with the types of compliance requirements referred above that could have a direct and material effect on the Housing Successor occurred. An audit includes examining, on a test basis, evidence about the Housing Successor's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the Housing Successor. However, our audit does not provide a legal determination of the Housing Successor's compliance with those requirements.

***Opinion***

In our opinion, the Housing Successor complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its Housing Successor for the year ending June 30, 2015.

**Report on Internal Control over Compliance**

Management of the Housing Successor is responsible for establishing and maintaining effective internal control over compliance with the type of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Housing Successor's internal control over compliance with the types of requirements that could have a direct and material effect on the Housing Successor to determine the auditing procedures that are appropriate in the circumstances for the



To the Honorable Mayor and Members of the City Council  
Pasadena Housing Successor  
City of Pasadena, California

purpose of expressing an opinion on compliance and to test and report on internal controls over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Housing Successor's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance of California Health and Safety Code sections applicable to California Housing Successor Agencies on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of California Health and Safety Code sections applicable to California Housing Successor Agencies will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of California Health and Safety Code sections applicable to California Housing Successor Agencies. Accordingly, this communication is not suitable for any other purpose.

Brea, California  
December 29, 2015