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PASADENA HOUSING SUCCESSOR
CITY OF PASADENA, CALIFORNIA

JUNE 30, 2018

FINANCIAL STATEMENTS

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PASADENA HOUSING SUCCESSOR
CITY OF PASADENA, CALIFORNIA

BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2018

PASADENA HOUSING SUCCESSOR
CITY OF PASADENA, CALIFORNIA

BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

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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, 2018, 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.

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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 special revenue fund of the Pasadena Housing Successor, as of June 30, 2018, 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.

Emphasis of Matters

As discussed in Note 1, the financial statements present the financial position of only the Housing Successor, a special revenue fund of the City of Pasadena, and do not present, or purport to present fairly, the financial position of the City as of June 30, 2018, 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 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.

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.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2018 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 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 Housing Successor'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 Housing Successor's internal control over financial reporting and compliance.

Lance, Soll & Lunghard, LLP

Brea, California
December 20, 2018

PASADENA HOUSING SUCCESSOR

BALANCE SHEET
JUNE 30, 2018

	Housing Successor Fund
Assets:	
Cash and cash equivalents	$ 5,868,487
Receivables:	
Accounts	5,145
Notes	20,503,081
Allowance for uncollectible notes	(20,503,081)
Accrued interest	2,399
Property held for resale	322,458
Total Assets	**$ 6,198,489**
Liabilities and Fund Balances:	
Liabilities:	
Accounts payable	$ 63,572
Total Liabilities	**63,572**
Fund Balances:	
Restricted for:	
Other Purpose	6,134,917
Total Fund Balances	**6,134,917**
Total Liabilities and Fund Balances	**$ 6,198,489**

See Notes to Financial Statements

PASADENA HOUSING SUCCESSOR

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES YEAR ENDED JUNE 30, 2018

	Housing Successor Fund
Revenues:	
Use of money and property	$ 92,411
Transfers in	919,766
Miscellaneous and other revenue	282,133
Total Revenues	**1,294,310**
Expenditures:	
Current:	
Housing	521,772
Total Expenditures	**521,772**
Excess (Deficiency) of Revenues Over (Under) Expenditures	772,538
Net Change in Fund Balances	772,538
Fund Balances, Beginning of Year	5,362,379
Fund Balances, End of Year	**$ 6,134,917**

See Notes to Financial Statements

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.

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

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

Note 1: Summary of Significant Accounting Policies (Continued)

d. Assets, Liabilities and Fund Balance

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.

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.

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.

II. DETAILED NOTES

Note 2: Cash and Cash Equivalents

As of June 30, 2018, cash and investments were reported in the accompanying financial statements as follows:

Deposits with financial institutions	$ 5,868,487
Total cash and cash equivalents	$ 5,868,487

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 City of Pasadena Housing Successor 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, 2018, The City has recorded an allowance for uncollectible of $20,503,081. At June 30, 2018 the Long term receivable balance was $20,503,081.

Note 4: Subsequent Event

On April 30 2018, the Successor Agency (City Council) adopted a resolution to transfer to the City Housing Successor certain affordable housing loans under which the Pasadena Community Development Commission was named as beneficiary (but which loans were inadvertently omitted from the Successor Agency's Housing Asset Transfer form). The transfer was approved by the State Department of Finance on August 27, 2018. The actual transfer of these loans is currently in progress and is expected to be completed in the second quarter of FY 2019.

PASADENA HOUSING SUCCESSOR

BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2018

	Budget Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Budgetary Fund Balance, July 1	$ 5,362,379	$ 5,362,379	$ 5,362,379	$ -
Resources (Inflows):				
Use of money and property	63,301	63,301	92,411	29,110
Miscellaneous	118,453	118,453	282,133	163,680
Transfers in	-	-	919,766	919,766
Amounts Available for Appropriations	**5,544,133**	**5,544,133**	**6,656,689**	**1,112,556**
Charges to Appropriations (Outflow):				
Housing	129,056	1,124,877	521,772	603,105
Total Charges to Appropriations	**129,056**	**1,124,877**	**521,772**	**603,105**
Budgetary Fund Balance, June 30	**$ 5,415,077**	**$ 4,419,256**	**$ 6,134,917**	**$ 1,715,661**

See Notes to Required Supplementary Information

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)

	(Projected) Low and Moderate Housing Funds All Project Area July 1, 2017		(Projected) Low and Moderate Housing Funds All Project Area July 1, 2018	
Opening Fund Balance		$ 5,362,379		$ 6,134,917
Less Unavailable Amounts:				
Land held for resale	$ -		$ (322,458)	
		-		(322,458)
Available Housing Successor Funds		5,362,379		5,812,459
Limitation (greater of $1,000,000 or four years deposits)				
Aggregate amount deposited for last four years:				
2017 - 2018	N/A		1,294,310	
2016 - 2017	1,400,435		1,400,435	
2015 - 2016	521,033		521,033	
2014 - 2015	667,293		667,293	
2013 - 2014	234,172		N/A	
Total	**$ 2,822,933**		**$ 3,883,071**	
Base Limitation	**$ 1,000,000**		**$ 1,000,000**	
Greater amount		$ 2,822,933		$ 3,883,071
Computed Excess/Surplus		**$ 2,539,446**		**$ 1,929,388** *

* This is the estimated future excess/surplus in 2018/2019. 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.

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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 Pasadena Housing Successor, a special revenue fund of the City of Pasadena, California (the Housing Successor), as of and for the year ended June 30, 2018, 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 20, 2018.

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*.

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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 Housing Successor's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Housing Successor's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lance, Soll & Lunghard, LLP

Brea, California
December 20, 2018

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

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

Report on Compliance for the Housing Successor

We have audited the City of Pasadena Housing Successor's (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, 2018.

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 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, 2018.

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 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.

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

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.

Report on Excess/Surplus Calculation

We have audited the financial statements of the Housing Successor as of and for the year ended June 30, 2018 and have issued our report thereon dated December 20, 2018, which contained an unmodified opinion on those financial statements. 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.

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.

Lance, Soll & Lunghard, LLP

Brea, California
December 20, 2018