PASADENA HOUSING SUCCESSOR
CITY OF PASADENA, CALIFORNIA

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2022

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PASADENA HOUSING SUCCESSOR
CITY OF PASADENA, CALIFORNIA
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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

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, 2022, and the related notes to the financial statements, which collectively comprise the Housing Successor's financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the special revenue fund of the Pasadena Housing Successor as of June 30, 2022, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Pasadena Housing Successor Special Revenue Fund and do not purport to, and do not, present fairly the financial position of the City of Pasadena, California as of June 30, 2022, and the changes in its financial position, or where appliable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS 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 financial statements, and other knowledge we obtained during our audit of the 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 financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the computation of the Housing Successor excess/surplus but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2023, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Irvine, California
March 17, 2023

PASADENA HOUSING SUCCESSOR
CITY OF PASADENA, CALIFORNIA
BALANCE SHEET
JUNE 30, 2022

	Housing Successor Fund
ASSETS	
Cash and Investments	$ 2,712,441
Receivables:	
Accounts	6,375
Notes	26,318,280
Allowance for Uncollectible Notes	(26,318,280)
Total Assets	$ 2,718,816
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable and Accrued Liabilities	$ 825,989
Total Liabilities	825,989
FUND BALANCE	
Restricted for Affordable Housing	1,892,827
Total Fund Balance	1,892,827
Total Liabilities and Fund Balance	$ 2,718,816

See accompanying Notes to Financial Statements.

PASADENA HOUSING SUCCESSOR
CITY OF PASADENA, CALIFORNIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2022

	Housing Successor Fund
REVENUES	
Investment Earnings	$ 6,508
Rental Income	61,741
Charges for Service	55,362
Miscellaneous Revenue - Note Repayments	220,970
Total Revenues	344,581
EXPENDITURES	
Housing	5,335,624
Total Expenditures	5,335,624
NET CHANGE IN FUND BALANCE	(4,991,043)
Fund Balance - Beginning of Year	6,883,870
FUND BALANCE - END OF YEAR	$ 1,892,827

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. These financial statements are exclusively for the Pasadena Housing Successor and do not purport to, and do not, present fairly the financial position and changes in the financial position of the City. The City's 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 were 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.

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.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements are presented using the modified accrual basis of accounting. 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 type: investment earnings.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 net changes in fair value of investments, 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.

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.

NOTE 2 CASH AND INVESTMENTS

As of June 30, 2022, the cash and investments reported in the accompanying financial statements are comprised as follows:

Equity in Pasadena Cash and Investment Pool	$ 2,712,441
Total Cash and Investments	$ 2,712,441

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Equity in the Cash and Investment Pool of the City of Pasadena

The Housing Successor has no separate bank accounts or investments other than its equity in the cash and investment pool managed by the City. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City. The Housing Successor has not adopted an investment policy separate from that of the City. The fair value of the Housing Successor's investment in this pool is reported in the accompanying financial statements at amounts based upon the Housing Successor's pro rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City.

Disclosures Relating to the Investment Policy, Interest Rate Risk, Credit Risk, and Custodial Credit Risk

Additional disclosures related to the investment policy, interest rate risk, credit risk and custodial credit risk are available in the City of Pasadena's Annual Comprehensive Financial Report.

NOTE 3 NOTES RECEIVABLE

The City of Pasadena Housing Successor made loans to assist in the development of affordable 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 ranging from 1.0% to 10.5%. At June 30, 2022, the long-term receivable balance was $26,318,280. Due to the uncertainty of their collectability at June 30, 2022, the City has recorded an allowance for uncollectible note balances of $26,318,280.

PASADENA HOUSING SUCCESSOR
CITY OF PASADENA, CALIFORNIA
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2022

	Budget Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
BUDGETARY FUND BALANCE - JULY 1, 2021	$ 6,883,870	$ 6,883,870	$ 6,883,870	$ -
Resources (Inflows):				
Investment Earnings	-	-	6,508	6,508
Rental Income	12,660	12,660	61,741	49,081
Charges for Service	-	-	55,362	55,362
Miscellaneous Revenue	169,494	169,494	220,970	51,476
Total Amounts Available for Appropriations	182,154	182,154	344,581	162,427
Charges to Appropriations (Outflows):				
Housing	3,941,619	6,941,619	5,335,624	1,605,995
Total Charges to Appropriations	3,941,619	6,941,619	5,335,624	1,605,995
BUDGETARY FUND BALANCE - JUNE 30, 2022	$ 3,124,405	$ 124,405	$ 1,892,827	$ 1,768,422

See accompanying Note to Required Supplementary Information.

PASADENA HOUSING SUCCESSOR
CITY OF PASADENA, CALIFORNIA
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2022

NOTE 1 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 accounting principles generally accepted in the United States of America.

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.

PASADENA HOUSING SUCCESSOR
CITY OF PASADENA, CALIFORNIA
COMPUTATION OF HOUSING SUCCESSOR EXCESS/SURPLUS (HSC 34176.1)
JUNE 30, 2022

		(Projected) Low and Moderate Housing Funds All Project Area July 1, 2022
Opening Fund Balance		$ 1,892,827
Less Unavailable Amounts:		-
Available Housing Successor Funds		$ 1,892,827
Limitation (Greater of $1,000,000 or Four Years Deposits)		
Aggregate Amount Deposited for Last Four Years: **		
2020 - 2021	$ 366,012	
2019 - 2020	1,443,006	
2018 - 2019	848,443	
2017 - 2018	1,294,310	
Total	$ 3,951,771	
Base Limitation	$ 1,000,000	
Greater Amount		$ 3,951,771
Computed Excess/Surplus		$ - *

* This is the projected excess/surplus for Fiscal Year beginning July 1, 2022. Please note: If a housing successor has an excess surplus, the housing successor shall encumber the excess surplus for purposes described in paragraph (3) of subdivision (a) of Health and Safety Code 34176.1 or transfer the funds pursuant to paragraph (2) 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 City has decided to change the preceding four years to the last four fiscal years without the current fiscal year, as advised by legal counsel, starting from FY 2020.

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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*

Honorable Mayor and Members of the City Council
of the City of Pasadena, California
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 Special Revenue Fund (Housing Successor) of the City of Pasadena, California (the City), as of and for the year ended June 30, 2022 and the related notes to the financial statements, which collectively comprise the Housing Successor's financial statements, and have issued our report thereon dated March 17, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over the Housing Successor financial reporting (Housing Successor's internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Housing Successor's 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 Housing Successor'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 or significant deficiencies may exist that were not identified.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Successor Special Revenue Fund of the City of Pasadena, California'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 Housing Successor's financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Irvine, California
March 17, 2023

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