

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

**FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2020

PASADENA HOUSING SUCCESSOR
CITY OF PASADENA, CALIFORNIA

JUNE 30, 2020

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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 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, 2020, and the related notes to the financial statements, which collectively comprise the Housing Successor's 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.

Auditors' Responsibility

Our responsibility is to express an opinion 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 opinion.

Opinion

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, 2020, 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 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, 2020 and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. 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 as listed in the table of contents be presented to supplement the financial statements. Such 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. 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 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 on it.

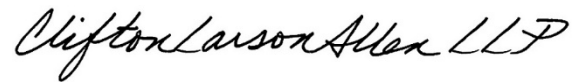
Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental 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

We have audited the financial statements of the Pasadena Housing Successor (the Housing Successor) as of and for the year ended June 30, 2020, and have issued our report thereon dated December 31, 2020, 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 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 31, 2020, 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 solely 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 the Housing Successor's internal control over financial reporting and compliance.

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CliftonLarsonAllen LLP

Irvine, California
December 31, 2020

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PASADENA HOUSING SUCCESSOR

BALANCE SHEET

June 30, 2020

	<u>Housing Successor Fund</u>
ASSETS	
Cash and investments	\$ 7,045,181
Receivables:	
Accounts	4,624
Notes	21,296,344
Allowance for uncollectible notes	<u>(21,296,344)</u>
TOTAL ASSETS	<u>7,049,805</u>
LIABILITIES	
Accounts payable and accrued liabilities	<u>16,624</u>
TOTAL LIABILITIES	<u>16,624</u>
FUND BALANCE	
Restricted for affordable housing	<u>7,033,181</u>
TOTAL FUND BALANCE	<u>7,033,181</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 7,049,805</u></u>

See accompanying notes to financial statements.

PASADENA HOUSING SUCCESSOR

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

For the year ended June 30, 2020

	<u>Housing Successor Fund</u>
REVENUES	
Investment earning	\$ 34,932
Rental income	61,741
Contribution from City	1,204,797
Miscellaneous revenue	141,538
TOTAL REVENUES	<u>1,443,008</u>
EXPENDITURES	
Housing	<u>397,337</u>
TOTAL EXPENDITURES	<u>397,337</u>
NET CHANGE IN FUND BALANCE	<u>1,045,671</u>
FUND BALANCE - BEGINNING OF YEAR	<u>5,987,510</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 7,033,181</u></u>

See accompanying notes to financial statements.

PASADENA HOUSING SUCCESSOR

Notes to Financial Statements

June 30, 2020

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. 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.

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 type: investment earnings.

PASADENA HOUSING SUCCESSOR

Notes to Financial Statements

June 30, 2020

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 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.

2. CASH AND INVESTMENTS

As of June 30, 2020, the cash and investments reported in the accompanying financial statements are comprised as follows:

Equity in Pasadena cash and investment pool	<u>\$ 7,045,181</u>
Total cash and investments	<u>\$ 7,045,181</u>

PASADENA HOUSING SUCCESSOR

Notes to Financial Statements

June 30, 2020

2. CASH AND INVESTMENTS (CONTINUED)

- a. 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. The Housing Successor is a voluntary participant in that pool. 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.

- b. 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 Comprehensive Annual Financial Report.

- c. Fair Value Measurements

The Housing Successor categorizes its fair value measurement within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are quoted prices of similar assets in active markets, and Level 3 inputs are significant unobservable inputs.

The Housing Successor's investment in the City investment pool is not subject to the fair value hierarchy.

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 1.5% to 11%. At June 30, 2020, the long term receivable balance was \$21,296,344. Due to the uncertainty of their collectability at June 30, 2020, the City has recorded an allowance for uncollectible note balances of \$21,296,344.

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PASADENA HOUSING SUCCESSOR

BUDGETARY COMPARISON SCHEDULE

For the year ended June 30, 2020

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 5,987,510	\$ 5,987,510	\$ 5,987,510	\$ -
Resources (Inflows):				
Investment earnings	62,861	62,861	34,932	(27,929)
Rental income	12,660	12,660	61,741	49,081
Contribution from City	-	-	1,204,797	1,204,797
Miscellaneous revenue	169,494	169,494	141,538	(27,956)
Amounts Available for Appropriations	<u>245,015</u>	<u>245,015</u>	<u>1,443,008</u>	<u>1,197,993</u>
Charges to Appropriations (Outflows):				
Housing	2,770,405	7,239,239	397,337	(6,841,902)
Total Charges to Appropriations	<u>2,770,405</u>	<u>7,239,239</u>	<u>397,337</u>	<u>(6,841,902)</u>
Budgetary Fund Balance, June 30	<u>\$ 3,462,120</u>	<u>\$ (1,006,714)</u>	<u>\$ 7,033,181</u>	<u>\$ 8,039,895</u>

PASADENA HOUSING SUCCESSOR

Notes to Required Supplementary Information

June 30, 2020

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.

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
 COMPUTATION OF HOUSING SUCCESSOR
 EXCESS/SURPLUS (HSC 34176.1)

	(Projected) Low and Moderate Housing Funds All Project Area July 1, 2020
Opening Fund Balance	7,033,181
Less Unavailable Amounts:	<u>(3,468,834)</u>
Amount committed to Heritage Square South project	<u>(3,468,834)</u>
Available Housing Successor Funds	3,564,347
Limitation (greater of \$1,000,000 or four years deposits)	
Aggregate amount deposited for last four years: **	
2018 - 2019	848,443
2017 - 2018	1,294,310
2016 - 2017	1,400,435
2015 - 2016	<u>521,033</u>
Total	<u><u>\$ 4,064,221</u></u>
Base Limitation	<u><u>\$ 1,000,000</u></u>
Greater amount	<u>\$ 4,064,221</u>
Computed Excess/Surplus	<u><u>\$ -</u></u> *

* This is the projected excess/surplus for Fiscal Year beginning July 1, 2020. 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 COMPLIANCE

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

Compliance

We have audited the City of Pasadena Housing Successor's (Housing Successor) compliance with the provisions described in the California Health and Safety Code sections applicable to California Housing Successor Agencies for the year ended June 30, 2020.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of City's management

Auditors' Responsibility

Our responsibility is to express an opinion on the Housing Successor's compliance based on our audit.

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 *Government Auditing Standards*, issued by the Comptroller General of the United States and the provisions described in the California Health and Safety Code sections applicable to California Housing Successor Agencies. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a 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. 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 compliance requirements referred to above that are applicable to the Housing Successor for the year ended June 30, 2020.

Internal Control over Compliance

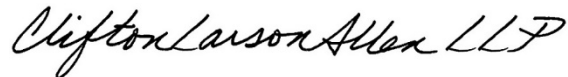
Management of the Housing Successor is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the Housing Successor's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on 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.

Internal Control over Compliance (Continued)

A deficiency in internal control over compliance 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, noncompliance 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 material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

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 report is not suitable for any other purpose.

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CliftonLarsonAllen LLP

Irvine, California
December 31, 2020



REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING
AND ON COMPLIANCE WITH 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, 2020 and the related notes to the financial statements, which collectively comprise the Housing Successor's financial statements, and have issued our report thereon dated December 31, 2020.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over the Housing Successor financial reporting (Housing Successor's internal control) to determine the 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 may exist that have not been identified.

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 determination of the Housing Successor's financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Irvine, California
December 31, 2020