

PASADENA COMMUNITY DEVELOPMENT COMMISSION
(A Component Unit of the City of Pasadena, California)

Notes to the Basic Financial Statements

Year Ended June 30, 2008

(2) Summary of Significant Accounting Policies, (Continued)

(e) Encumbrances

Encumbrance accounting, under which purchase orders and contracts for the expenditures of funds are reported in order to reserve that portion of the fund balance, is employed in the Governmental Funds. Encumbrances are reported as a reservation of fund balance since they do not constitute expenditures or liabilities.

(f) Incremental Property Taxes

Subject to certain limitations in the Revenue and Taxation Code and the California Constitution, the City is expressly empowered to levy and collect taxes on all taxable property within its boundaries for the purpose of carrying on its operations and paying its obligations. Property taxes are levied as of July 1 using a lien date of January 1 and are payable by property owners in two equal installments, which are due by December 10 and April 10, respectively. The taxes levied are billed and collected by the County of Los Angeles on behalf of the City, and are remitted to the City throughout the year. The Commission records incremental property taxes as revenue when received from the County, except at year-end when property taxes received within 60 days are accrued as revenue. The City allocates incremental property tax revenues arising from the Commission's projects to the Commission.

Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien	January 1
Levy	July 1 to June 30
Due	November 1 – 1 st installment February 1 – 2 nd installment
Collection	December 10 – 1 st installment April 10 – 2 nd installment

Property taxes on the secured roll are due in two installments; on November 1 and February 1 of the fiscal year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty is added to any delinquent payments. Such delinquent property may thereafter be redeemed by payments of the delinquent taxes and the delinquent penalty, plus a redemption penalty of 1% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is then subject to sale by the County Tax Collector.

PASADENA COMMUNITY DEVELOPMENT COMMISSION
(A Component Unit of the City of Pasadena, California)

Notes to the Basic Financial Statements

Year Ended June 30, 2008

(2) Summary of Significant Accounting Policies, (Continued)

(f) Incremental Property Taxes (Continued)

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty is attached to delinquent taxes on property of the unsecured roll, and an additional penalty of 1% per month begins to accrue. Collection of delinquent unsecured taxes is the responsibility of the County of Los Angeles using the several means legally available to it.

(g) Prior Year Data

The information included in the accompanying financial statements for the prior year has been presented for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Certain minor reclassifications of prior year data have been made in order to enhance their comparability with current year figures.

(h) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenue and expenditures during the reported period.

(3) Cash and Investments

The Commission follows the practice of pooling cash and investments of all funds, except for funds required to be held by outside fiscal agents under the provisions of bond or certificate of participation indentures. Interest income earned on pooled cash and investments is allocated monthly to the various funds on the basis of the average monthly share of the pooled cash and investments of each of the individual funds. Interest income from cash and investments with the fiscal agents is credited directly to the related funds.

Cash and investments at June 30, 2008 are reflected on the Statement of Net Assets as follows:

Cash and investments	\$ 35,232,806
Cash and investments with fiscal agents	<u>1,255,424</u>
Total cash and investments	<u>\$ 36,488,230</u>

Cash and investments at June 30, 2008 consist of the following:

Demand deposits	\$ 51,206
Investment in City of Pasadena Pool	7,462,230
Investments	<u>28,974,794</u>
Total cash and investments	<u>\$ 36,488,230</u>

PASADENA COMMUNITY DEVELOPMENT COMMISSION
(A Component Unit of the City of Pasadena, California)

Notes to the Basic Financial Statements

Year Ended June 30, 2008

(3) Cash and Investments, (Continued)

Investments Authorized by the California Government Code and the Commission's Investment Policy

The table below identifies the investment types that are authorized for the Commission by the California Government Code and the City's investment policy. The table also identifies certain provisions of the California Government Code (or the City's investment policy, if more restrictive) that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the Commission, rather than the general provisions of the California Government Code or the City's investment policy.

<u>Investment Types</u> <u>Authorized by State Law</u>	<u>Authorized</u> <u>By</u> <u>Investment</u>	<u>*Maximum</u> <u>Maturity</u>	<u>*Maximum</u> <u>Percentage</u> <u>Of Portfolio</u>	<u>*Maximum</u> <u>Investment</u> <u>In One Issuer</u>
Local Agency Bonds	Yes	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Banker's Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	270 days	25%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	Yes	1 year	None	None
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	Yes	5 years	30%	None
Mutual Funds	Yes	N/A	20%	10%
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	Yes	5 years	20%	None
County Pooled Investment Funds	Yes	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None
JPA Pools (other investment pools)	Yes	N/A	None	None

* Based on state law requirements or investment policy requirements, whichever is more restrictive.

PASADENA COMMUNITY DEVELOPMENT COMMISSION
(A Component Unit of the City of Pasadena, California)

Notes to the Basic Financial Statements

Year Ended June 30, 2008

(3) Cash and Investments, (Continued)

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Commission's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	360 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	30 years	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Commission manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

PASADENA COMMUNITY DEVELOPMENT COMMISSION
(A Component Unit of the City of Pasadena, California)

Notes to the Basic Financial Statements

Year Ended June 30, 2008

(3) Cash and Investments, (Continued)

Information about the sensitivity of the fair values of the Entity's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Entity's investments by maturity:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity (in Months)</u>		
		<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25-60 Months</u>
Federal agency securities	\$ 14,954,623	-	1,994,310	12,960,313
Money market funds	3,594,733	3,594,733	-	-
State investment pool	9,170,013	9,170,013	-	-
Held by bond trustee:				
Federal agency securities	977,239	-	-	977,239
Money market funds	<u>278,186</u>	<u>278,186</u>	<u>-</u>	<u>-</u>
Total	<u>\$28,974,794</u>	<u>13,042,932</u>	<u>1,994,310</u>	<u>13,937,552</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

<u>Investment Type</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>	
			<u>AAA</u>	<u>Not Rated</u>
Federal agency securities	\$ 14,954,623	N/A	14,954,623	-
Money market funds	3,594,733	N/A	3,594,733	-
State investment pool	9,170,013	N/A	-	9,170,013
Held by bond trustee:				
Federal agency securities	977,239	N/A	977,239	-
Money market funds	<u>278,186</u>	<u>A</u>	<u>278,186</u>	<u>-</u>
Total	<u>\$28,974,794</u>		<u>19,804,781</u>	<u>9,170,013</u>

PASADENA COMMUNITY DEVELOPMENT COMMISSION
(A Component Unit of the City of Pasadena, California)

Notes to the Basic Financial Statements

Year Ended June 30, 2008

(3) Cash and Investments, (Continued)

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total Entity investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>	
Goldman Fin Sq Tr. Prime Oblig	Money Market Fund	\$ 278,186	22%
Federal Home Loan Bank	Federal agency securities	516,853	41%
Federal Home Loan Mortgage Corp	Federal agency securities	<u>460,386</u>	37%
Total held by Trustee Fiscal agents		<u>\$ 1,255,425</u>	
Federal Home Loan Mortgage Corp	Federal agency securities	\$ 1,994,310	7%
Federal National Mortgage Assoc	Federal agency securities	5,956,875	21%
Federal Farm Credit Bank	Federal agency securities	3,023,438	11%
Federal Home Loan Bank	Federal agency securities	3,980,000	14%
Merill Lynch	Money Market Funds	3,594,733	13%
Local Agency Investment Fund	State Investment Pools	<u>9,170,013</u>	33%
Total Investments held by the Commission		<u>\$27,719,369</u>	

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Entity's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Entity deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

PASADENA COMMUNITY DEVELOPMENT COMMISSION
(A Component Unit of the City of Pasadena, California)

Notes to the Basic Financial Statements

Year Ended June 30, 2008

(3) Cash and Investments, (Continued)

Investment In City Of Pasadena Investment Pool

The Commission is a voluntary participant in the City of Pasadena's investment pool managed by the City of Pasadena. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City of Pasadena. The Commission has not adopted an investment policy separate from that of the City of Pasadena. The fair value of the Commission's investment in this pool is reported in the accompanying financial statements at amounts based upon the Commission's pro-rata-share of the fair value calculated by the City for the entire City portfolio. This pool is unrated. Further information about the composition, maturities, and concentrations associated with this pool can be found in the Comprehensive Annual Financial Report of the City.

(4) Notes Receivable

The Commission has notes receivable arising from the sale of land to project developers and various other agencies, subject to approved redevelopment plans. These notes have various terms, including maturities ranging from 2 to 30 years and interest rates ranging from 3.5% to 11%. Due to the uncertainty of their collectibility, at June 30, 2008, the Commission has recorded in the accompanying balance sheet an allowance for uncollectible long-term receivables of \$7,510,087 related to certain notes receivable balances. The balance of notes receivable net of allowances for uncollectibility at June 30, 2008 was \$17,668,946.

(5) Due From and To Other Funds

Interfund receivable and payable balances at June 30, 2008 are as follows:

<u>Due From Other Funds</u>	<u>Due to Other Funds</u>	<u>Amount</u>
Special Revenue Fund	Capital Projects, Old Pasadena	\$ 30,978
	Other Government Funds	47,533
	Debt Service, Fair Oaks	11,276
	Debt Service, Lake/Washington	1,313
Capital Projects, Downtown	Capital Project, Fair Oaks	<u>1,466,264(1)</u>
Total Due From and To Other Funds		<u>\$1,557,364</u>

(1) The Commission has amounts due from the Fair Oaks Capital Project Fund and due to the Downtown Capital Project Fund to finance overrun of costs during the litigation and purchase of land within the Fair Oaks redevelopment project.

PASADENA COMMUNITY DEVELOPMENT COMMISSION
(A Component Unit of the City of Pasadena, California)

Notes to the Basic Financial Statements

Year Ended June 30, 2008

(6) Advances To and From Other Funds

Long-term interfund receivable and payable balances at June 30, 2008 are as follows:

<u>Advances to Other Funds</u>	<u>Advances From Other Funds</u>	<u>Amount</u>
Capital Projects, Downtown	Debt Service, Lake/Washington	\$767,158
Other Governmental Funds	Capital Projects, Old Pasadena	<u>189,485</u>
		<u>\$956,643</u>

The Commission interfund advance to Lake/Washington Debt Service Fund from Downtown Capital Projects Fund was made to finance the purchase of Block 4 for the implementation and public improvement within the redevelopment project area. The Old Pasadena project area advance from Orange Grove Capital Projects Fund was made to finance administrative planning cost.

(7) Property Held for Resale

Property held for resale is generally acquired under disposition and development agreements in the normal course of redevelopment activity. These agreements generally provide for transfer of the property to developers after certain redevelopment obligations have been fulfilled. As of June 30, 2008 the Commission total property held for resale is \$9,130,065.

PASADENA COMMUNITY DEVELOPMENT COMMISSION
(A Component Unit of the City of Pasadena, California)

Notes to the Basic Financial Statements

Year Ended June 30, 2008

(8) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2008 are as follows:

	<u>Balance at</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>June 30, 2008</u>	<u>Due Within</u> <u>One Year</u>
Tax Allocation Bonds:					
Fair Oaks Project:					
2006 Tax Allocation Revenue Bonds (Fair Oaks Redevelopment Project and Public Improvement Program Refunding)	\$ 2,470,000	--	(120,000)	2,350,000	125,000
Orange Grove Project:					
2000 Tax Allocation Refunding Revenue Bonds (Orange Grove Redevelopment Project)	1,650,000	--	(195,000)	1,455,000	206,000
Villa Parke Project:					
2000 Tax Allocation Refunding Revenue Bonds (Villa-Parke Redevelopment Project)	1,067,000	--	(126,000)	941,000	134,000
2006 Tax Allocation Revenue Bonds (Villa-Parke Redevelopment Project Refunding)	630,000	--	(85,000)	545,000	90,000
Lake Washington Project:					
2006 Tax Allocation Revenue Bonds (Lake/Washington Redevelopment Project and Public Improvement Program Refunding)	805,000	--	(60,000)	745,000	60,000
Affordable Housing Projects:					
1991 Tax Allocation Bond, Low Moderate Housing	1,371,550	--	(313,525)	1,058,025	332,336
2006 Tax Allocation Revenue Bonds (Housing Set Aside Revenue Townhouse Project Refunding)	<u>1,935,000</u>	<u>--</u>	<u>(210,000)</u>	<u>1,725,000</u>	<u>215,000</u>
Total Tax Allocation Bonds	<u>9,928,550</u>	<u>--</u>	<u>(1,109,525)</u>	<u>8,819,025</u>	<u>1,162,336</u>
Advances Payable – City	37,448,008	1,189,344	(402,253)	38,235,099	-
Notes Payable	<u>5,065,625</u>	<u>1,000,000</u>	<u>(792,212)</u>	<u>5,273,413</u>	<u>834,540</u>
Total Long-Term Liabilities	<u>\$52,442,183</u>	<u>2,189,344</u>	<u>(2,303,990)</u>	<u>52,327,537</u>	<u>1,996,876</u>

PASADENA COMMUNITY DEVELOPMENT COMMISSION
(A Component Unit of the City of Pasadena, California)

Notes to the Basic Financial Statements

Year Ended June 30, 2008

(9) Advances Payable - City of Pasadena

- (a) The Commission has negotiated certain advances with the City for the purchase of four different properties. The aggregate principal outstanding balance of such advances is \$6,386,637 at June 30, 2008. Interest ranges from 5.5% to 9.5%. The Commission will repay the principal and interest as funds become available. No interest payments were made during the year ended June 30, 2008.

<u>Project</u>	<u>Principal</u>	<u>Accrued Interest</u>	<u>Total</u>
Fair Oaks	\$ 1,154,737	2,009,946	3,164,683
Lake/Washington	4,474,900	9,406,963	13,881,863
Lincoln	<u>757,000</u>	<u>830,918</u>	<u>1,587,918</u>
Total	<u>\$ 6,386,637</u>	<u>12,247,827</u>	<u>18,634,464</u>

- (b) The City has advanced certain amounts to the Commission to assist in funding administrative and other expenses necessary or incidental to the implementation of redevelopment plans. Interest ranges from 4.25% to 12.0% and is due as funds become available. At June 30, 2008, the amounts of such advances payable to the City and unpaid interest thereon for each project area, are as follows:

<u>Project</u>	<u>Principal</u>	<u>Accrued Interest</u>	<u>Total</u>
Downtown	\$ 646,323	-	646,323
Fair Oaks	8,110,537	6,965,205	15,075,742
Orange Grove	217,746	-	217,746
Villa Parke	217,319	-	217,319
Old Pasadena	418,222	1,082,192	1,500,414
Lake/Washington	205,320	35,599	240,919
Lincoln	<u>636,844</u>	<u>1,065,328</u>	<u>1,702,172</u>
Total	<u>\$10,452,311</u>	<u>9,148,324</u>	<u>19,600,635</u>

PASADENA COMMUNITY DEVELOPMENT COMMISSION
(A Component Unit of the City of Pasadena, California)

Notes to the Basic Financial Statements

Year Ended June 30, 2008

(10) Notes Payable

**Outstanding at
June 30, 2008**

On July 11, 2001, the Commission received \$6,500,000 from the Federal National Mortgage Association. The proceeds of the note were used for new construction (ownership and rental), homebuyers assistance rental rehabilitation, and other special needs by soliciting funding proposals from nonprofit and for-profit developers in order to address the low-income affordable housing needs in a section of northwest Pasadena commonly known as the "Northwest Target Area" and the City of Pasadena at large. Interest accrues at 5.2% per annum. Principal and interest payments of \$900,000 are due annually through July 11, 2010. \$2,005,793

On September 18, 2001, the Commission entered into a ten-year note agreement with the California Housing Finance Agency for the acquisition, predevelopment, rehabilitation and financing of affordable multi-family developments with the City. The terms of the note require annual interest payments with a rate of 3% per annum on funds drawn, maturing on September 18, 2011. 1,000,000

On October 20, 2004, the Commission entered into a ten-year note agreement with the California Housing Finance Agency for site acquisition, predevelopment and construction associated with the development, rehabilitation and preservation of homeownership and multifamily rental units within the City. The terms of the note require annual interest payments with a rate of 3% per annum on funds drawn, maturing on October 20, 2014. 1,267,620

On May 19, 2006, the City entered into a ten-year agreement with the California Housing Finance Agency for site acquisition, predevelopment and construction associated with the development, rehabilitation and preservation of homeownership and multifamily rental units within the City. The terms of the note require annual interest payments with a rate of 3.00% per annum on funds drawn, maturing on May 19, 2016. 1,000,000

Total primary government notes payable \$5,273,413

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 834,540	193,489	1,028,029
2010	879,129	148,900	1,028,029
2011	292,124	105,987	398,111
2012	1,000,000	74,604	1,074,604
2013	-	68,029	68,029
2014-2016	<u>2,267,620</u>	<u>136,246</u>	<u>2,403,866</u>
	<u>\$5,273,413</u>	<u>727,255</u>	<u>6,000,668</u>

PASADENA COMMUNITY DEVELOPMENT COMMISSION
(A Component Unit of the City of Pasadena, California)

Notes to the Basic Financial Statements

Year Ended June 30, 2008

(11) Tax Allocation Bonds Payable

Outstanding at
June 30, 2008

Fair Oaks Project

On May 17, 2006 the Commission issued \$2,470,000, 2006 Tax Allocation Bonds (Fair Oaks Refund and Public Improvement Program) for the refunding of the 1993 Tax Allocation Bonds and to finance redevelopment activities within the Fair Oaks Project Area. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net asset. Interest on the bonds is payable semiannually on January 1 and July 1, commencing January 1, 2007. The rate of interest varies from 3.800% to 4.900% per annum. Principal is payable in annual installments ranging from \$120,000 to \$225,000 commencing July 1, 2007 and ending July 1, 2021. The legal reserve requirement is \$230,815. As of June 30, 2008 the balance held in reserve account is \$249,881.

\$ 2,350,000

Orange Grove Project

On October 17, 2000, the Commission issued \$2,801,000, 2000 Tax Allocation Refunding Bonds (Orange Grove Redevelopment Project) for refunding of the 1985 Tax Allocation Refunding Bonds and 1989 Subordinate Tax Allocation Bonds. Interest on the bonds is payable semi-annually on December 1 and June 1, commencing June 1, 2001. The rate of interest varies from 4.35% to 5.50% per annum. Principal is payable in annual installments ranging from \$137,000 to \$282,000 commencing June 1, 2001 and ending June 1, 2014. The legal reserve requirement is \$280,100. The balance held in the reserve account as of June 30, 2008 was \$281,258.

1,455,000

Villa Parke Project

On October 17, 2000, the Commission issued \$1,814,000, 2000 Tax Allocation Refunding Bonds Subordinate, (Villa Parke Redevelopment Project) for the refinancing of the 1985 Subordinate Tax Allocation Bonds. Interest on the bonds is payable semi-annually on December 1 and June 1 commencing June 1, 2001. The rate of interest varies from 4.350% to 5.50% per annum. Principal is payable in annual installments ranging from \$89,000 to \$182,000 commencing June 1, 2001 and ending June 1, 2014. The legal reserve requirement is \$181,400. The balance held in the reserve account as of June 30, 2008 was \$182,149

941,000

PASADENA COMMUNITY DEVELOPMENT COMMISSION
(A Component Unit of the City of Pasadena, California)

Notes to the Basic Financial Statements

Year Ended June 30, 2008

(11) Tax Allocation Bonds Payable, (Continued)

**Outstanding at
June 30, 2008**

Villa Parke Project

On May 17, 2006 the Commission issued \$710,000 Tax Allocation Bonds Series 2006 (Villa Parke Redevelopment Project) for the refunding of the 1993 Tax Allocation Bonds and to finance redevelopment activities within the Villa Project Area. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. Interest on the bonds is payable semiannually on June 1 and December 1, commencing December 1, 2006. The rate of interest varies from 3.800% to 4.500% per annum. Principal is payable in annual installments ranging from \$80,000 to \$100,000 commencing June 1, 2007 and ending June 1, 2014. The legal reserve requirement is \$71,000. As of June 30, 2008 the balance held in reserve account is \$107,050.

\$ 545,000

Lake/Washington Project

On May 17, 2006 the Commission issued \$805,000, 2006 Tax Allocation Bonds (Lake/Washington Refunding and Public Improvement Program) for the purpose of reimbursing City Advances, financing certain redevelopment activities and refunding of the outstanding 1993 Tax Allocation Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. Interest on the bonds is payable semiannually on January 1 and July 1, commencing January 1, 2007. The rate of interest varies from 3.800% to 4.700% per annum. Principal is payable in annual installments ranging from \$60,000 to \$90,000 commencing July 1, 2007 and ending July 1, 2018. The legal reserve requirement is \$80,500. As of June 30, 2008 the balance held in reserve account is \$83,780.

745,000

Affordable Housing Project

On July 16, 1991, the Commission issued \$4,540,000, 1991 Tax Allocation Bonds, Low Moderate Housing for the rehabilitation of Centennial Place, formerly the Pasadena YMCA. Interest on the bonds is payable annually on June 1, commencing June 1, 1992. The rate of interest is 6% per annum. Principal is payable in annual installments ranging from \$123,417 to \$373,413 commencing June 2, 1992 and ending June 1, 2011. A letter of credit has been obtained to satisfy the legal reserve.

1,058,025

PASADENA COMMUNITY DEVELOPMENT COMMISSION
(A Component Unit of the City of Pasadena, California)

Notes to the Basic Financial Statements

Year Ended June 30, 2008

(11) Tax Allocation Bonds Payable, (Continued)

**Outstanding at
June 30, 2008**

Affordable Housing Project

On May 17, 2006 the Commission issued \$1,935,000, 2006 Tax Allocation Bonds (Housing Set-Aside Revenue-Townhouse Project) for the financing of residential housing redevelopment. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. Interest on the bonds is payable semiannually on February 1 and August 1, commencing August 1, 2007. The rate of interest varies from 3.800% to 4.300% per annum. Principal is payable in annual installments ranging from \$210,000 to \$275,000 commencing August 1, 2007 and ending August 1, 2015. The legal reserve requirement is \$193,500. As of June 30, 2008 the balance held in reserve account is \$201,329.

1,725,000

Total Tax Allocation Bonds Payable

\$ 8,819,025

Future debt service requirements for bonds payable are as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 1,162,336	441,808	1,604,144
2010	1,234,277	380,750	1,615,027
2011	1,273,412	315,383	1,588,795
2012	955,000	247,045	1,202,045
2013	1,000,000	197,443	1,197,443
2014-2018	<u>3,194,000</u>	<u>492,429</u>	<u>3,686,429</u>
	<u>\$ 8,819,025</u>	<u>2,074,858</u>	<u>10,893,883</u>

PASADENA COMMUNITY DEVELOPMENT COMMISSION
(A Component Unit of the City of Pasadena, California)

Notes to the Basic Financial Statements

Year Ended June 30, 2008

(12) Transfers In and Out

The accompanying schedule identifies the funds from which interfund transfers are made and the funds to which those amounts are transferred:

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>
Special Revenue	Other Government	\$1,049,991 (1)
Debt Service:		
Downtown	Special Revenue	800,000
Fair Oaks	Special Revenue	173,216
Fair Oaks	Fair Oaks Capital Project	95,627
Lake/Washington	Special Revenue	73,053
Capital Projects:		
Downtown	Debt Service Downtown	67,000
Old Pasadena	Special Revenue	1,341,964 (2)
Other Government	Special Revenue	515,664
Other Government	Other Government	<u>270,454</u>
		<u>\$4,386,969</u>

Transfers from Special Revenue and Capital Project – Downtown consist in part of the following:

- (1) \$1,049,991 transferred to debt service fund – Affordable Housing for the Affordable Housing portion of debt service payment on 1991 Tax Allocation Bonds Low Moderate Housing, 2006 Tax Allocation Bonds Housing Set-Aside Revenue Townhouse Project and 2001 \$6,500,000 Federal National Mortgage Association Note.
- (2) \$1,341,964 transferred to Special Revenue Fund for the low and moderate housing set aside from Old Pasadena Redevelopment Project Area.

(13) Administrative Overhead Costs

During the year ending June 30, 2008, the Commission paid the City \$3,463,864 for services provided by City employees.

(14) Commitments and Contingencies

Pending Litigation

The Commission is subject to certain claims arising in the normal course of business; none of which, in management's opinion, is expected to have a material adverse effect on the Commission's financial statements.

PASADENA COMMUNITY DEVELOPMENT COMMISSION
(A Component Unit of the City of Pasadena, California)

Notes to the Basic Financial Statements

Year Ended June 30, 2008

(14) Commitments and Contingencies (Continued)

Contingencies

The City constructed certain public improvements in various redevelopment project areas, some of which were financed through the issuance of bonds. The Commission and the City agreed by resolution, in accordance with the Health and Safety Code of the State of California, that these public improvements benefited the project areas. As a result, the Commission agreed to reimburse the City for the cost of such improvements with periodic payments as funds are available. These payments can be made from any funds which may be legally available to the Commission; however, payments are subordinate to pledges of tax increments or other proceeds for existing bonds and also for any bonds issued in the future with the prior approval of the City Council.

As of June 30, 2008, pursuant to the terms of these agreements, outstanding amounts are as follows:

<u>Project Area</u>	<u>Principal</u>	<u>Interest</u>	<u>Outstanding at June 30, 2008</u>
Downtown	\$24,017,712	85,188,234	109,205,946
Villa Parke	4,205,418	6,824,214	11,029,632
Old Pasadena	<u>30,555,410</u>	<u>27,119,370</u>	<u>57,674,780</u>
	<u>\$58,778,540</u>	<u>119,131,818</u>	<u>177,910,358</u>

Due to the subordinate nature of the commitment and the unlikelihood of the availability of funds for future payment, the Commission has not recorded the obligation at June 30, 2008. Additionally, the City has not recorded a receivable for the balance due to the City at June 30, 2008.

(15) Accumulated Fund Deficits

At June 30, 2008, the Fair Oaks Capital Project Fund had an accumulated deficit of \$1,402,189. The deficit exists primarily due to the sale of land held for resale in the Fair Oaks Project Area at \$5.8 million loss in 1997. The Commission plans to eliminate the accumulated deficit in the future through the restructuring of the notes and through increase in revenues.

PASADENA COMMUNITY DEVELOPMENT COMMISSION
(A Component Unit of the City of Pasadena, California)

Notes to the Basic Financial Statements

Year Ended June 30, 2008

(16) Defeasance of Debt

In prior years, the Commission defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old debt issues. Accordingly, the trust account assets and the liability for the defeased debt issues are not included the Commission's financial statements.

As of June 30, 2008 the following defeased debt issues are outstanding:

	<u>Outstanding Balance at June 30, 2008</u>
Fair Oaks 1985 Tax Allocation Bonds	\$ 710,000
Villa-Parke 1985 Tax Allocation Bonds	890,000
Lake/Washington, 1985 Tax Allocation Bonds	210,000
Orange Grove 1989 Subordinate Tax Allocation Bonds	1,210,000
Villa Parke 1989 Subordinate Tax Allocation Bonds	965,000
Fair Oaks 1993 Tax Allocation Bond	2,375,000
Villa Parke 1993 Tax Allocation Bond	635,000
Lake Washington 1993 Tax Allocation Bond	760,000
Housing Set-Aside Revenue Townhouse 1996 Tax Allocation Bond	<u>1,770,000</u>
Total defeased debt issues outstanding	\$ <u>9,525,000</u>

PASADENA COMMUNITY DEVELOPMENT COMMISSION
(A Component Unit of the City of Pasadena, California)

Notes to Required Supplementary Information

Year Ended June 30, 2008

(1) Budgets and Budgetary Accounting

The City Council is required to adopt an annual budget resolution by June 30 of each fiscal year. The budgets are adopted on a basis that does not differ materially from generally accepted accounting principles (GAAP).

The Commission maintains budgetary controls to ensure compliance with legal provisions embodied in the appropriated budget approved by the City Council. The Commission's level of budgetary control (the level at which expenditures cannot legally exceed the appropriated amount) is the fund level. The Commission's chief executive officer may authorize transfer of appropriations within a department so long as it is within a single fund. Supplemental appropriations during the year must be approved by the Commission. There were no significant budget amendments during the fiscal year. 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 at year-end.

PASADENA COMMUNITY DEVELOPMENT COMMISSION
(A Component Unit of the City of Pasadena, California)

Special Revenue Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual

Year ended June 30, 2008

	Budget		Actual	Variance with	Prior
	Original	Final		Final Budget	
Revenues:					
Intergovernmental	\$ 29,000	29,000	-	(29,000)	250,000
Rental income	50,400	50,400	71,839	21,439	98,847
Investment income	265,000	265,000	520,323	255,323	530,675
Net changes in fair value of investments	-	-	63,580	63,580	115,527
Housing in lieu fees	1,392,315	1,392,315	1,406,630	14,315	3,394,878
Other revenue	1,475,000	1,475,000	1,158,052	(316,948)	377,503
Total revenues	3,211,715	3,211,715	3,220,424	8,709	4,767,430
Expenditures:					
Current:					
Administrative overhead costs	414,339	414,333	758,449	(344,116)	1,078,713
Legal and financial services	130,000	130,000	34,516	95,484	-
Planning	289,000	289,000	163,145	125,855	-
Project Management	1,013,277	1,013,277	905,820	107,457	785,020
Real estate acquisition	-	-	36,908	(36,908)	-
Emergency shelter service	157,862	157,862	166,609	(8,747)	162,333
Operation of acquired properties	10,000	10,000	12,256	(2,256)	3,316
Relocation	-	-	85,399	(85,399)	376,281
Rehabilitation	490,000	490,000	322,553	167,447	40,000
Affordable housing assistance	17,357,568	17,357,568	113,803	17,243,765	-
Disposition	-	-	11,875	(11,875)	-
Total expenditures	19,862,046	19,862,040	2,611,333	17,250,707	2,445,663
Excess (deficiency) of revenues over (under) expenditures	(16,650,331)	(16,650,325)	609,091	17,259,416	2,321,767
Other financing sources (uses):					
Issuance of notes	1,000,000	1,000,000	1,000,000	-	-
Transfers in	2,524,937	2,524,937	2,903,896	378,959	2,940,278
Transfers out	(1,636,998)	(1,736,998)	(1,426,892)	310,106	(789,953)
Total other financing sources (uses)	1,887,939	1,787,939	2,477,004	689,065	2,150,325
Change in fund balance	(14,762,392)	(14,862,386)	3,086,095	17,948,481	4,472,092
Fund balances at beginning of year	35,014,327	35,014,327	35,014,327	-	30,542,235
Fund balances at end of year	\$ 20,251,935	20,151,941	38,100,422	17,948,481	35,014,327

PASADENA COMMUNITY DEVELOPMENT COMMISSION
(A Component Unit of the City of Pasadena, California)

Non-Major Governmental Funds

Combining Balance Sheet

June 30, 2008

	Debt Service Funds		
	Orange Grove	Villa Parke	Affordable Housing
<u>Assets</u>			
Cash and investments	\$ 994,335	4,288,360	4,757
Cash and investments with fiscal agents	431,157	289,200	201,406
Interest receivable	355	31,716	-
Taxes receivable	156,022	55,342	-
Notes receivable	-	-	-
Advances to other funds	-	-	-
Allowance for uncollectible long-term receivables	-	-	-
	-	-	-
Total assets	\$ 1,581,869	4,664,618	206,163
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ -	98,833	83,841
Due to other funds	30,883	12,614	-
	30,883	111,447	83,841
Total liabilities	30,883	111,447	83,841
Fund balances:			
Reserved for:			
Debt service	1,550,986	4,553,171	122,322
Unreserved: reported in:			
Capital project funds	-	-	-
	-	-	-
Total fund balances	1,550,986	4,553,171	122,322
Total liabilities and fund balances	\$ 1,581,869	4,664,618	206,163

Capital Projects Funds						
Orange Grove	Villa Parke	Lake/ Washington	Lincoln	Halstead/ Sycamore	Totals	
					2008	2007
-	2,896	745,469	1,923,979	47,291	8,007,087	6,958,492
-	-	-	-	-	921,763	887,278
-	800	6,071	11,588	3,378	53,908	44,563
-	-	-	19,898	-	231,262	49,472
230,000	857,809	-	-	-	1,087,809	1,087,809
189,485	-	-	-	-	189,485	189,485
<u>(419,485)</u>	<u>(857,809)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,277,294)</u>	<u>(1,277,294)</u>
<u>-</u>	<u>3,696</u>	<u>751,540</u>	<u>1,955,465</u>	<u>50,669</u>	<u>9,214,020</u>	<u>7,939,805</u>
-	-	2,645	505	-	185,824	267,742
-	-	-	4,036	-	47,533	15,229
-	-	2,645	4,541	-	233,357	282,971
-	-	-	-	-	6,226,479	5,190,725
-	3,696	748,895	1,950,924	50,669	2,754,184	2,466,109
-	3,696	748,895	1,950,924	50,669	8,980,663	7,656,834
-	3,696	751,540	1,955,465	50,669	9,214,020	7,939,805

PASADENA COMMUNITY DEVELOPMENT COMMISSION
(A Component Unit of the City of Pasadena, California)

Non-Major Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Year ended June 30, 2008

	Debt Service Funds		
	Orange Grove	Villa Parke	Affordable Housing
Revenues:			
Incremental property taxes	\$ 815,044	1,477,656	-
Intergovernmental	-	-	558,000
Investment earnings	93,104	164,938	9,246
Net changes in fair value of investments	4,590	11,910	4,841
Sales tax	-	-	-
Other revenue	-	-	-
Total revenues	912,738	1,654,504	572,087
Expenditures:			
Current:			
Administrative overhead costs	-	-	-
Planning	-	-	-
Sales tax rebate - City of Pasadena	-	-	-
Property tax pass-thru'	32,332	101,537	-
Debt service:			
Principal	224,963	240,963	1,315,737
Interest and fiscal charges	130,812	104,436	273,792
Total expenditures	388,107	446,936	1,589,529
Excess (deficiency) of revenues over (under) expenditures	524,631	1,207,568	(1,017,442)
Other financing sources (uses):			
Proceed of advance from the City of Pasadena	-	-	-
Transfers in	-	-	1,049,991
Transfers out	(261,828)	(467,166)	-
Total other financing sources (uses)	(261,828)	(467,166)	1,049,991
Change in fund balances	262,803	740,402	32,549
Fund balances (deficit) at beginning of year	1,288,183	3,812,769	89,773
Fund balances (deficit) at end of year	\$ 1,550,986	4,553,171	122,322

Capital Projects Funds						
Orange Grove	Villa Parke	Lake/Washington	Lincoln	Halstead/Sycamore	Totals	
					2008	2007
-	-	-	285,621	-	2,578,321	2,374,176
-	-	-	-	-	558,000	558,000
-	-	32,554	74,397	66	374,305	390,665
-	-	2,942	5,837	-	30,120	61,421
-	-	-	-	263,801	263,801	469,816
-	867	-	-	-	867	45,000
-	867	35,496	365,855	263,867	3,805,414	3,899,078
95,029	158,707	48,852	67,873	-	370,461	347,705
-	6,000	33,341	10,036	-	49,377	171,445
-	-	-	-	161,172	161,172	520,896
-	-	-	10,331	-	144,200	-
-	-	-	-	-	1,781,663	1,487,937
-	-	-	97,644	-	606,684	678,172
95,029	164,707	82,193	185,884	161,172	3,113,557	3,206,155
(95,029)	(163,840)	(46,697)	179,971	102,695	691,857	692,923
-	-	-	97,644	-	97,644	97,644
98,820	171,635	-	-	-	1,320,446	1,103,556
-	-	-	(57,124)	-	(786,118)	(811,951)
98,820	171,635	-	40,520	-	631,972	389,249
3,791	7,795	(46,697)	220,491	102,695	1,323,829	1,082,172
(3,791)	(4,099)	795,592	1,730,433	(52,026)	7,656,834	6,574,662
-	3,696	748,895	1,950,924	50,669	8,980,663	7,656,834

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The Honorable Mayor and City Council
Pasadena Community Development Commission
Pasadena, California

**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***

We have audited the financial statements of the Pasadena Community Development Commission (“Commission”) as of and for the year ended June 30, 2008, and have issued our report thereon dated December 12, 2008. 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 of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission’s financial statements that is more than inconsequential will not be prevented or detected by the Commission’s internal control. Matters conforming to this definition have been reported to the City Council of the City of Pasadena in a separate letter dated December 12, 2008. None of the matters referred to in that letter related to the Commission.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatements, 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. Such provisions included those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. 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*. However, we noted an instance of noncompliance with respect to the provisions referred to in the preceding paragraph which is described as follows:

During our review, it was determined that the Commission did not comply with the requirements of the Health and Safety Code regarding the sale of agency owned property.

Health and Safety Code Section 33433 states in part:

"...before any property of the agency acquired in whole or in part, directly or indirectly, with tax increment moneys is sold or leased for development pursuant to the redevelopment plan, the sale or lease shall first be approved by the legislative body by resolution after public hearing. Notice of the time and place of the hearing shall be published in a newspaper of general circulation in the community at least once per week for at least two successive weeks, as specified in Section 6066 of the Government Code, prior to the hearing. The agency shall make available, for public inspection and copying at a cost not to exceed the cost of duplication, a report no later than the time of publication of the first notice of the hearing mandated by this section. This report shall contain both of the following:

(A) A copy of the proposed sale or lease.

- (B) *A summary which describes and specifies all of the following:*
- (i) *The cost of the agreement to the agency, including land acquisition costs, clearance costs, relocation costs, the costs of any improvements to be provided by the agency, plus the expected interest on any loans or bonds to finance the agreements.*
 - (ii) *The estimated value of the interest to be conveyed or leased, determined at the highest and best uses permitted under the plan.*
 - (iii) *The estimated value of the interest to be conveyed or leased, determined at the use and with the conditions, covenants, and development costs required by the sale or lease. The purchase price or present value of the lease payments which the lessor will be required to make during the term of the lease. If the sale price or total rental amount is less than the fair market value of the interest to be conveyed or leased, determined at the highest and best use consistent with the redevelopment plan, then the agency shall provide as part of the summary an explanation of the reasons for the difference.*
 - (iv) *An explanation of why the sale or lease of the property will assist in the elimination of blight, with reference to all supporting facts and materials relied upon in making this explanation.*
 - (v) *The report shall be made available to the public no later than the time of publication of the first notice of the hearing mandated by this section.*

This report is intended solely for the information of management, City of Pasadena, State Controller, awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

Irvine, California
December 12, 2008