



CITY OF PASADENA  
PASADENA HOUSING SUCCESSOR  
FISCAL YEAR ENDED JUNE 30, 2016

BASIC  
FINANCIAL STATEMENTS

Focused  
on YOU



PASADENA HOUSING SUCCESSOR  
CITY OF PASADENA, CALIFORNIA

BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2016

PASADENA HOUSING SUCCESSOR  
CITY OF PASADENA, CALIFORNIA

BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

TABLE OF CONTENTS

	<u>Page Number</u>
FINANCIAL SECTION	
Independent Auditors' Report.....	1
BASIC FINANCIAL STATEMENTS	
Balance Sheet .....	4
Statement of Revenues, Expenditures and Changes in Fund Balances .....	5
Notes to Financial Statements.....	6
REQUIRED SUPPLEMENTAL INFORMATION	
Budgetary Comparison Schedule.....	9
Notes to Required Supplementary Information .....	10
SUPPLEMENTAL INFORMATION	
Computation of Housing Successor Excess/Surplus .....	11
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and other Matters Based on an audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	12
Independent Auditors' Report on Compliance with Applicable Requirement and on Internal Control Over Compliance .....	14



## INDEPENDENT AUDITORS' REPORT

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

### **Report on Financial Statements**

We have audited the accompanying financial statements of the Pasadena Housing Successor, (the Housing Successor), a Special Revenue Fund of the City of Pasadena, California, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Housing Successor's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the special revenue fund of the Pasadena Housing Successor, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

As discussed in Note 1, the financial statements present on the Housing Successor, a special revenue fund of the City of Pasadena, and do not purport to, and do not, present fairly the financial position of the City of Pasadena, California, as of June 30, 2016, 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 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying report on excess/surplus calculation is presented for purposes of additional analysis only and is not a required part of the financial statements. Such information is the responsibility of management and was derived from the financial statements. The report on excess/surplus calculation has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance.



CPAs AND ADVISORS

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2016 on our consideration of the Housing Successor's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Housing Successor's internal control over financial reporting and compliance.

*Lance, Solt & Lughard, LLP*

Brea, California  
December 28, 2016

PASADENA HOUSING SUCCESSOR

BALANCE SHEET  
JUNE 30, 2016

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	<b>Housing Successor Fund</b>
<b>Assets:</b>	
Cash and cash equivalents	\$ 4,011,219
Receivables:	
Accounts	5,145
Notes	20,889,093
Allowance for uncollectible notes	(20,889,093)
Property held for resale	<u>1,400,000</u>
<b>Total Assets</b>	<b><u>\$ 5,416,364</u></b>
<b>Liabilities and Fund Balances:</b>	
<b>Liabilities:</b>	
Accounts payable	<u>\$ 23</u>
<b>Total Liabilities</b>	<b><u>23</u></b>
<b>Fund Balances:</b>	
<b>Restricted for:</b>	
Community development projects	<u>5,416,341</u>
<b>Total Fund Balances</b>	<b><u>5,416,341</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 5,416,364</u></b>

PASADENA HOUSING SUCCESSOR

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2016

	<b>Housing Successor Fund</b>
<b>Revenues:</b>	
Charges for services	\$ 1,209
Use of money and property	18,676
Rental income	61,741
Miscellaneous and other revenue	439,407
	<hr/>
<b>Total Revenues</b>	<b>521,033</b>
	<hr/>
<b>Expenditures:</b>	
Current:	
Housing	16,220,632
	<hr/>
<b>Total Expenditures</b>	<b>16,220,632</b>
	<hr/>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(15,699,599)
	<hr/>
Net Change in Fund Balances	(15,699,599)
	<hr/>
Fund Balances, Beginning of Year	21,115,940
	<hr/>
<b>Fund Balances, End of Year</b>	<b>\$ 5,416,341</b>
	<hr/> <hr/>

**I. SIGNIFICANT ACCOUNTING POLICIES**

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

**a. Financial Reporting Entity**

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

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

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

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

**b. Basis of Presentation**

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

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

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

PASADENA HOUSING SUCCESSOR

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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Note 1: Summary of Significant Accounting Policies (Continued)

d. Assets, Liabilities and Fund Balance

*Cash and Investments*

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

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

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

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

*Property Held for Resale*

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

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

*Fund Balance*

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

- Restricted fund balance is the portion of fund balance that is subject to externally enforceable limitations by law, enabling legislation or limitations imposed by creditors or grantors.

**PASADENA HOUSING SUCCESSOR**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

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**II. DETAILED NOTES**

**Note 2: Cash and Cash Equivalents**

As of June 30, 2016, cash and investments were reported in the accompanying financial statements as follows:

Deposits with financial institutions	<u>\$ 4,011,219</u>
Total cash and cash equivalents	<u><u>\$ 4,011,219</u></u>

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

**Note 3: Loans Receivable**

The City of Pasadena Housing Successor made loans to assist in the development of affordable rental housing projects and the purchase of homes by homebuyers. These loans are secured by trust deeds and were funded with redevelopment low-moderate income housing set-aside funds. These notes have various terms, including maturities ranging from 5 to 45 years and interest rates ranging from 1.5% to 11%. Due to the uncertainty of their collectability at June 30, 2016, The City has recorded an allowance for uncollectibles of \$20,889,093. At June 30, 2016 the Long term receivable balance was \$20,889,093.

PASADENA HOUSING SUCCESSOR

**BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED JUNE 30, 2016**

	<b>Budget Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
Budgetary Fund Balance, July 1	\$ 21,115,940	\$ 21,115,940	\$ 21,115,940	\$ -
<b>Resources (Inflows):</b>				
Charges for services	-	-	1,209	1,209
Use of money and property	-	-	18,676	18,676
Rental income	63,301	63,301	61,741	(1,560)
Miscellaneous	118,453	118,453	439,407	320,954
<b>Amounts Available for Appropriations</b>	<b>21,297,694</b>	<b>21,297,694</b>	<b>21,636,973</b>	<b>339,279</b>
<b>Charges to Appropriations (Outflow):</b>				
Housing	36,000	586,000	16,220,632	(15,634,632)
<b>Total Charges to Appropriations</b>	<b>36,000</b>	<b>586,000</b>	<b>16,220,632</b>	<b>(15,634,632)</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 21,261,694</b>	<b>\$ 20,711,694</b>	<b>\$ 5,416,341</b>	<b>\$ (15,295,353)</b>

**PASADENA HOUSING SUCCESSOR**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2016**

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**Budget**

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

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

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

The following departments had excess expenditures over appropriations for the year ended June 30, 2016:

<u>Department</u>	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
Housing	\$ 586,000	\$ 16,220,632	\$ 15,634,632





INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Pasadena Housing Successor, a special revenue fund of the City of Pasadena, California, (the Housing Successor) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Housing Successor's basic financial statements, and have issued our report thereon dated December 28, 2016.

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

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Housing Successor's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.





CPAs AND ADVISORS

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Housing Successor's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Housing Successor's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Lance, Solt & Loughard, LLP*

Brea, California  
December 28, 2016



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

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

### **Report on Compliance for the Housing Successor**

We have audited the City of Pasadena Housing Successor's (the Housing Successor) compliance with the type of compliance requirements described in the California Health and Safety Code sections applicable to California Housing Successor Agencies for the year ending June 30, 2016.

#### ***Management's Responsibility***

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

#### ***Auditor's Responsibility***

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

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

#### ***Opinion***

In our opinion, the Housing Successor complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its Housing Successor for the year ending June 30, 2016.



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

### Report on Internal Control over Compliance

Management of the Housing Successor is responsible for establishing and maintaining effective internal control over compliance with the type of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Housing Successor's internal control over compliance with the types of requirements that could have a direct and material effect on the Housing Successor to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal controls over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

Accordingly, we do not express an opinion on the effectiveness of the Housing Successor's internal control over compliance.

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

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

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

Brea, California  
December 28, 2016