

**CITY OF ORANGE HOUSING SUCCESSOR
CITY OF ORANGE, CALIFORNIA**

FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2016

**PREPARED BY: FINANCE DEPARTMENT
William M. Kolbow, Finance Director**

**ORANGE HOUSING SUCCESSOR
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	Page No.
Financial Audit	1
Compliance Audit.....	4
 BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements:	
Statement of Net Position	7
Statement of Activities	8
Fund Financial Statements:	
Balance Sheet - Governmental Funds	9
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	10
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	12
Notes to Financial Statements	13
 REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule	22
Notes to Required Supplementary Information.....	23
 OTHER SUPPLEMENTARY INFORMATION	
Computation of Low and Moderate Income Housing Funds Excess/Surplus.....	24

INDEPENDENT AUDITORS' REPORT

To the Honorable City Council
of the Orange Housing Successor
Orange, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the Housing Successor Agency Fund, (the Housing Successor), a major special revenue fund of the City of Orange, California, (the City) 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.

Auditors' 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 Housing Successor'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 Housing Successor'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.

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 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 Matter

As discussed in Note 1 to the financial statements, the financial statements present only the Housing Successor and do not purport to, and do not, present fairly the financial position of the City of Orange, California, as of June 30, 2016, 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 opinions are 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 schedule, identified as Required Supplementary Information (RSI) in the accompanying table of contents, 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 RSI 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI 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 opinions on the basic financial statements are not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Housing Successor's basic financial statements. The computation of low and moderate income housing funds excess/surplus is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The computation of low and moderate income housing funds excess/surplus 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 on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 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.

White Nelson Dick Evans LLP

Irvine, California
December 21, 2016

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

To the Honorable City Council
of the Orange Housing Successor
Orange, California

Report on Compliance for the Housing Successor

We have audited the Housing Successor Agency Fund (the Housing Successor) of the City of Orange, California's (the City), compliance with the types of compliance requirements described in the California Health and Safety Code sections applicable to California Housing Successor Agencies that could have a direct and material effect for the year ended 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.

Auditors' 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 based on our audit of the types of compliance requirements referred to above. 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 ended June 30, 2016.

Other Matter

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with *Government Auditing Standards* and which is described below. Our opinion is not modified with respect to this matter.

The Housing Successor's response to the noncompliance finding identified in our audit is described below. The Housing Successor's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

HCD Annual Report Late Submission

Auditor's Comment and Recommendation

Senate Bill 341 (SB 341) requires all Housing Successor entities to comply with annual report requirements. One requirement is for the City to report housing financial and activity information by including specified information with the Annual Progress Report (APR) required to be annually submitted to the Department of Housing and Community Development (HCD) by April 1 of the subsequent year pursuant to the State of California housing law in reporting progress in implementing the housing element. The City submitted the APR for the fiscal year ended June 30, 2015 on June 28, 2016, which was after the due date of April 1, 2016. We recommend that the City implement policies and procedures to ensure timely reporting of the APR to HCD.

Management's Response

Staff resource limitations and competing project demands resulted in a delay to accumulate the required information and submit the report to the State. The City continues to make efforts to submit this report on a timely basis.

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.

Report on Internal Control over Compliance (Continued)

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

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

Report on Excess Surplus Calculation

We have audited the financial statements of the governmental activities and the Housing Successor as of and for the year ended June 30, 2016, and have issued our report thereon dated December 21, 2016, 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 computation of low and moderate income housing funds excess/surplus 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 and relates directly to the underlying accounting and other records used to prepare the financial statements. The computation of low and moderate income housing funds excess/surplus has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance.

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

White Nelson Dick Evans LLP

Irvine, California
December 21, 2016

CITY OF ORANGE HOUSING SUCCESSOR

STATEMENT OF NET POSITION
JUNE 30, 2016

	<u>Governmental Activities</u>
ASSETS:	
Pooled cash and investments	\$ 1,711,366
Receivables:	
Notes and loans (net of allowance for net present value)	21,553,902
Accrued interest	2,768
Accounts	39
Total assets	<u>23,268,075</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred pension related items	<u>23,305</u>
Total Deferred Outflows of Resources	<u>23,305</u>
LIABILITIES:	
Noncurrent liabilities:	
Net pension liability	<u>273,397</u>
Total Liabilities	<u>273,397</u>
DEFERRED INFLOWS OF RESOURCES:	
Deferred pension related items	<u>32,910</u>
Total Deferred Inflows of Resources	<u>32,910</u>
NET POSITION:	
Restricted for:	
Housing projects	<u>22,985,073</u>
Total Net Position	<u><u>\$ 22,985,073</u></u>

CITY OF ORANGE HOUSING SUCCESSOR

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

	Expenses	Program Revenues		Capital Contributions and Grants	Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Contributions and Grants		Governmental Activities
Functions/Programs					
Governmental Activities:					
General government	\$ 21,393	-	-	-	(21,393)
Community development	51,736	-	-	-	(51,736)
Economic development	15,651	-	-	-	(15,651)
Economic devel-Adjustment of loans receivable to present value	1,840,894	-	-	-	(1,840,894)
Total Governmental Activities	\$ 1,929,674	-	-	-	(1,929,674)
Total Primary Government	\$ 1,929,674	-	-	-	(1,929,674)
General Revenues:					
Use of money and property					134,583
Total General Revenues					134,583
Change in Net Position					(1,795,091)
Net Position at Beginning of Year, as restated					24,780,164
Net Position at End of Year					\$ 22,985,073

CITY OF ORANGE HOUSING SUCCESSOR

BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2016

ASSETS:

Pooled cash and investments	\$	1,711,366
Receivables:		
Notes and loans (net of allowance for net present value)		21,553,902
Accrued interest		2,768
Accounts		39
Total Assets		<u>23,268,075</u>

FUND BALANCE:

Restricted for:		
Housing projects		<u>23,268,075</u>
Total Fund Balance	\$	<u>23,268,075</u>

CITY OF ORANGE HOUSING SUCCESSOR

RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016

Fund balance of governmental fund \$ 23,268,075

Amounts reported for governmental activities in the statement of net position are different because:

Pension related debt applicable to the governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Deferred outflows of resources and deferred inflows of resources related to pensions are only reported in the Statement of Net Position as the changes in these amounts affect only the government-wide statements for governmental activities.

Deferred outflows of resources	23,305
Deferred inflows of resources	(32,910)
Pension liability	(273,397)

Net Position of governmental activities **\$ 22,985,073**

CITY OF ORANGE HOUSING SUCCESSOR

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

REVENUES:

Use of money and property	<u>\$ 134,583</u>
Total Revenues	<u>134,583</u>

EXPENDITURES:

Current:	
General government	21,393
Community development	51,736
Economic development	38,553
Economic development-Adjustment of loans receivable to present value	<u>1,840,894</u>
Total Expenditures	<u>1,952,576</u>
Net Change in Fund Balance	<u>(1,817,993)</u>
Fund Balance, Beginning of Year, as restated	<u>25,086,068</u>
Fund Balance, End of Year	<u><u>\$ 23,268,075</u></u>

CITY OF ORANGE HOUSING SUCCESSOR

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2016

Net change in fund balance - governmental fund \$ (1,817,993)

Amounts reported for governmental activities in the statement of activities are different because:

Pension obligation expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 22,902

Net change in net position of governmental activities \$ (1,795,091)

Note 1: Significant Accounting Policies

a. Financial Reporting Entity

The Orange Successor Housing Agency (Housing Successor) was established on February 1, 2012, pursuant to the dissolution of the former Redevelopment Agency. Prior to that, the activities were accounted for in the Redevelopment Agency Housing Fund. The City Council became the governing board of the Housing Successor. The Housing Successor was formed for purposes of construction and management of quality affordable housing within the City.

The Housing Successor is controlled by the City of Orange (City) and, accordingly, the accompanying fund financial statements are included as a special revenue fund of the basic financial statements prepared by the City. The accompanying financial statements are intended to reflect the financial position of operations for the Housing Successor Fund only and do not purport to, and do not, present the financial position of the City of Orange, California. Separate financial statements are prepared for the City of Orange, and may be obtained from the City.

b. Basis of Presentation

The Housing Successor's 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.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the fund. The Housing Successor has no fiduciary activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

While separate government-wide and fund financial statements are presented, they are interrelated.

Note 1: Significant Accounting Policies (Continued)

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all (both current and long term) economic resources and obligations are included in the accompanying Statement of Net Position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the current financial resources measurement focus, only current assets and liabilities are generally included on the balance sheet. Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Housing Successor considers revenues relating to grants to be available if they are collected within 120 days of the end of the current fiscal period, and within 60 days for all other revenues. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Use of money and property is considered to be measurable and available only when cash is received by the government.

d. Assets, Liabilities and Net Position or Equity

Cash and Investments

Investments are reported in the accompanying financial statements at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Changes in fair value that occur during a fiscal year are recognized as use of money and property for that fiscal year. Use of money and property includes interest earnings, changes in fair value (realized/unrealized), gains or losses realized upon the liquidation, maturity, or sale of investments, and rental income.

Cash and investments are pooled with other City of Orange funds for investment purposes, with interest being allocated monthly to various funds based on each fund's prior month-end cash and investment balance. Interest

Note 1: Significant Accounting Policies (Continued)

to the related funds. Investment policies applicable to all the Housing Successor's funds are those of the City of Orange and are included in the notes to the City's basic financial statements.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until then. The Housing Successor has only one type of item in this category. Deferred outflows from changes in the net pension liability are the results of contributions made after the measurement period, which are applied against the net pension liability in the following year.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Housing Successor has one type of item that qualifies for reporting in this category, which relates to inflows from changes in net pension liability and is reported only in the statement of net position, arising under the full accrual basis of accounting. These inflows are the result of:

- Changes of Assumptions - This amount is deferred and amortized using an Expected Average Remaining Service Lifetime (EARSL) of 2.2 years for miscellaneous employees.
- Differences between Expected and Actual Experiences - This amount is deferred and amortized using an EARSL of 2.2 years for miscellaneous employees.
- Net difference between Projected and Actual Earnings on Pension Plan Investments - This amount is deferred and amortized on a straight-line basis over 5 years.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered

Note 1: Significant Accounting Policies (Continued)

to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Equity

In the fund financial statements, government funds report the following fund balance classification:

Non-spendable include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted include amounts that are constrained on the use of resources by either (a) external creditors, grantors, contributors, or laws of regulations of other governments or (b) by law through constitutional provisions or enabling legislation.

Committed include amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest authority, the City Council. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution. The Housing Successor did not have any committed fund balance as of June 30, 2016.

Assigned include amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Housing Successor did not have any assigned fund balance as of June 30, 2016.

Unassigned include the residual amounts that have not been restricted, committed, or assigned to specific purposes.

Note 1: Significant Accounting Policies (Continued)

Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflow/outflows of resources at the reporting date and revenue and expenses during the reporting period. Actual results could differ from those estimates.

Net Pension Liability

The accompanying financial statements reflect the implementation of GASB Statement No. 68 - Accounting and Financial Reporting for Pensions- which replaces the requirements of Statement No. 27 – Accounting for Pensions by State and Local Government Employers. The intent of this Statement is to enhance accountability by requiring recognition of the entire net pension liability and provide a more comprehensive measure of pension expense.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used.

Valuation Date (VD) June 30, 2014
Measurement Date (MD) June 30, 2015
Measurement Period (MP) July 1, 2014 to June 30, 2015

Loans Receivable

Non-current portions of long-term receivables due are reported on the Governmental and Government-wide financial statements. For loans that have a forgiveness component and/or repayment term greater than that of conventional loans, an allowance is recorded to more accurately present the net present value of these receivables.

Note 2: Cash and Investments

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

Equity in City investment pool	<u>\$ 1,711,366</u>
Total cash and investments	<u>\$ 1,711,366</u>

a. Equity in the Cash and Investment Pool of the City of Orange

The Housing Successor has no separate bank accounts or investments other than its equity in the cash and investment pool managed by the City of Orange. 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 of Orange. The Housing Successor has not adopted an investment policy separate from that of the City of Orange. The fair value of the Housing Successor's investment in the 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, which are recorded at the estimated fair value.

b. Disclosures Relating to the Investment Policy, Interest Rate 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 Orange's Comprehensive Annual Financial Report.

c. Fair Value Measurements

The Housing Successor categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the relative inputs used to measure the fair value of the investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

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

d. GASB Statement No. 72

GASB Statement No. 72 - "Fair Value Measurement and Application". In fiscal year 2015 2016, the City implemented this statement, requiring the use of valuation techniques which are appropriate under the circumstances and are either

Note 2: Cash and Investments (Continued)

a market approach, a cost approach or an income approach. GASB Statement No. 72 establishes a hierarchy of inputs used to measure fair value, consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs (other than quoted prices included within Level 1), which are either directly or indirectly observable for the asset or liability. Level 3 inputs are unobservable inputs, and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. GASB Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques used for the fair value measurements. There was no material impact on the City's financial statements as a result of the implementation of GASB Statement No. 72.

Note 3: Loans Receivable

With the dissolution of the Redevelopment Agency effective February 1, 2012, the City Council adopted a resolution authorizing the City of Orange to become the Housing Successor and enabling the City to retain housing assets and functions of the Redevelopment Agency. The Housing Successor provides housing loans for the rehabilitation and expansion of housing for low and moderate-income families in the City. Housing rehabilitation loans are for the purpose of rehabilitation and upgrading existing housing due to structural deficiencies. Housing loans also assist in the construction of new multi-family housing projects or rehabilitation of existing multi-family units. At June 30, 2016, the outstanding balance of these loans was \$21,553,902.

Additionally, the former Redevelopment Agency issued several promissory notes, pursuant to and in implementation of the "Affordable Housing Resale Restrictions Option to Designate Eligible Purchaser with Alternative Option to Purchase and Option to Purchase upon Default." These notes do not actually represent cash paid to the borrowers, but represent the subsidy constructively received by the borrower as a result of borrowers' purchase of the property at a price below its fair market value. No repayment of these notes is due by the borrower until the Affordable Term of the loan date (45 years commencing from the loan date), or upon default, as described in the note. As of June 30, 2016, the outstanding amount for these loans was \$1,012,000. Due to the length of the deferral and the uncertainty of repayment on these loans, an allowance has been recorded for the full amount of the loan receivable.

Note 4: Retirement Plan

a. Plan Description, Benefits Provided and Employees Covered

The City contributes to the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan (the Plan). CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and their beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and memoranda of understanding with employee bargaining units. A full description of the pension plan regarding number of employees covered, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the CalPERS June 30, 2013 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the actuarial valuation report. This report and CalPERS' audited financial statements are publicly available reports that can be obtained at CalPERS' website under Employers. Additional information can be found in the City's Comprehensive Annual Financial Report for the Year Ended June 30, 2016.

The Plan provides benefits for two membership classifications, Miscellaneous and Safety, and those benefits are tiered based upon date of CalPERS membership. Safety membership is extended to those in active law enforcement and fire suppression, while all others are classified as Miscellaneous members. Assembly Bill (AB) 340, also known as the Public Employees' Pension Reform Act (PEPRA), created new benefit formulas and a final compensation period as well as new contribution requirements for new employees. For the purpose of PEPRA, "new employees" are those hired on or after January 1, 2013, and had never been a member of CalPERS previously. CalPERS refers to members prior to January 1, 2013, as Classic members.

Employees of the City of Orange Housing Successor are covered under the Miscellaneous Plan. Further details of the City of Orange Retirement Plans can be found in the City's Comprehensive Annual Financial Report for the Year Ended June 30, 2016.

The City allocates a percentage of the GASB 68 pension liability to the Housing Successor based on its pro rata share of the actual employer pension cost to the City.

Note 5: Restatement of Beginning Fund Balance/Net Position

Government-wide Financial Statement:

Activity	Beginning Net Position, as Previously Reported	Adjustment of Prior Year Loan Balances	Beginning Net Position, as Restated
Governmental	\$29,449,681	(\$4,669,517)	24,780,164

Fund Financial Statement:

Activity	Beginning Net Position, as Previously Reported	Adjustment of Prior Year Loan Balances	Beginning Net Position, as Restated
Housing Successor	\$28,743,585	(\$3,657,517)	25,086,068

The above adjustment in the Government-wide financial statement is the result of the recording of prior year allowance for net present value of loans receivable in the amount of \$3,657,517 and the removal of the outstanding balance of the "deferred inflow of resources" in the amount of \$1,012,000.

The above adjustment in the Fund Financial Statement is the result of the recording of prior year allowance for net present value of loans receivable in the amount of \$3,657,517.

Note 6: Excess of Actual Over Appropriations

The Housing Successor had actual expenditures of \$1,952,576 and a final budgeted amount of \$128,918. The \$1,823,658 overage of expenditure is primarily due to the adjustment of housing loans receivable to properly present them at net present value.

Note 7: Subsequent Event

In preparing these financial statements, the Housing Successor has evaluated events and transactions for potential recognition or disclosure through December 21, 2016, the date the financial statements were available to be issued. No events or transactions were identified that required recognition or disclosure.

CITY OF ORANGE HOUSING SUCCESSOR

BUDGETARY COMPARISON SCHEDULE
 YEAR ENDED JUNE 30, 2016

	Budgetary Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Use of money and property	\$ 64,548	64,548	134,583	70,035
Total Revenues	64,548	64,548	134,583	70,035
EXPENDITURES:				
Current:				
General government				
City manager	13,565	13,755	-	13,755
Finance	20,884	21,158	21,393	(235)
Community development	50,856	51,477	51,736	(259)
Economic development	42,528	42,528	38,553	3,975
Economic development-Adjustment of loans receivable to present value	-	-	1,840,894	(1,840,894)
Total Expenditures	127,833	128,918	1,952,576	(1,823,658)
Net Change in Fund Balance	(63,285)	(64,370)	(1,817,993)	(1,753,623)
Fund Balance, Beginning of Year, as restated	25,086,068	25,086,068	25,086,068	-
Fund Balance End of Year	\$ 25,022,783	25,021,698	23,268,075	(1,753,623)

Budgetary Accounting

The City of Orange adopts its annual budgets by July 1 of each year on a basis consistent with generally accepted accounting principles. The Housing Successor Fund is included in the budget for the City. The budget is monitored to ensure compliance with legal provisions embodied in the appropriated budget, as approved or amended by the City Council. Department heads are responsible for monitoring their department's appropriated budget. The legal level of budgetary control is at the fund level. The City's management may transfer resources between operating line items with a department in the same fund as they deem appropriate. Unencumbered appropriations of the Housing Successor automatically lapse at the end of the fiscal year. Ongoing, unfulfilled encumbrances and their appropriations automatically carry over and will be honored during the subsequent year.

CITY OF ORANGE HOUSING SUCCESSOR

COMPUTATION OF LOW AND MODERATE
INCOME HOUSING FUND
EXCESS/SURPLUS

	Low and Moderate Housing Funds All Project Area July 1, 2015	Low and Moderate Housing Funds All Project Area July 1, 2016
Opening Fund Balance (as restated)	\$ 25,086,068 B	\$ 23,268,075
Less Unavailable Amounts:		
Loans receivable	\$ (20,367,129)	\$ (21,553,902)
	<u>(20,367,129)</u>	<u>(21,553,902)</u>
Available Low and Moderate Income Housing Funds	4,718,939	1,714,173
Limitation (greater of \$1,000,000 or four years set-aside)		
Set-Aside for last four years:		
2015 - 2016	-	134,583
2014 - 2015	388,266	388,266
2013 - 2014	197,523	197,523
2012 - 2013	536,786	536,786
2011 - 2012	24,308	24,308
	<u>1,146,883</u>	<u>1,281,466</u>
Total	<u>\$ 1,146,883</u>	<u>\$ 1,281,466</u>
Base Limitation	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
Greater amount	<u>1,146,883</u>	<u>1,281,466</u>
Computed Excess/Surplus	<u>\$ 3,572,056</u>	<u>\$ 432,707 A</u>

A. An Excess Surplus was developed for fiscal year ending June 30, 2014 and continues in fiscal year 2016. According to HSC 34176.1(d) if a housing successor has an excess surplus, the housing successor shall encumber the excess surplus for the purposes as described in 34176.1 paragraph (3) of subdivision (a), or transfer these funds pursuant to 34176.1 paragraph (2), within three fiscal years, currently by June 30, 2017. If the housing successor fails to comply within 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.

B. Beginning Fund Balance of FY 2014-15 was restated as a result of recording prior year allowance for net present value of loan receivable..