

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

**FUND FINANCIAL STATEMENTS**

**FISCAL YEAR ENDED JUNE 30, 2015**

**PREPARED BY: FINANCE DEPARTMENT  
Will Kolbow, Finance Director**

## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council  
Orange Housing Authority  
City of Orange, California

### **Report on Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the Successor Housing Agency Fund, (the Housing Successor), a major special revenue fund of the City of Orange, California, as of and for the year ended June 30, 2015, 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  
Orange Housing Authority  
City of Orange, 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 Housing Successor Fund, as of June 30, 2015, 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.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 budgetary comparison 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 obtain 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 opinions on the financial statements that collectively comprise the Housing Successor Fund's basic financial statements. The excess/surplus calculation is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The 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 on it.

### ***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the Housing Successor Fund and do not purport to, and do not, present fairly the financial position of the City of Orange, California, as of June 30, 2015, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.



To the Honorable Mayor and Members of the City Council  
Orange Housing Authority  
City of Orange, California

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2015 on our consideration of the City'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 City's internal control over financial reporting and compliance.

*Lance, Solt & Lughard, LLP*

Brea, California  
December 17, 2015

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

To the Honorable Mayor and Members of the City Council  
City of Orange, California

**Report on Compliance for the Housing Successor**

We have audited the City of Orange Housing Successor's (the Housing Successor) 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 ending June 30, 2015.

***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 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 to 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, 2015.

**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.



To the Honorable Mayor and Members of the City Council  
City of Orange, California

*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.

#### **Other Matters**

The results of our auditing procedures disclosed the following instance of noncompliance:

#### **HCD Annual Report Late Submission**

We identified an instance of noncompliance related to timely submission of the Housing and Community Development (HCD) annual report by April 1<sup>st</sup>. The report due by April 1, 2015 was dated on the letter as April 21, 2015; and stamped as received by the State of California Office of Planning and Research by April 24, 2015, past the due date.

#### **Report on Excess/Surplus Calculation**

We have audited the financial statements of the governmental activities, the business-type activities, the each major fund, and the aggregate remaining fund information of the City of Orange as of and for the year ended June 30, 2015, and have issued our report thereon dated December 17, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying report on excess/surplus calculation is presented for purposes of additional analysis only and is not a required part of the financial statements. Such information is the responsibility of management and was derived from the financial statements. The report on excess/surplus calculation has not been subjected to the auditing procedures applied in the audit of 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.

Brea, California  
December 17, 2015

**ORANGE HOUSING SUCCESSOR  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**TABLE OF CONTENTS**

<b>INDEPENDENT AUDITORS' REPORT</b>	Page No.
Financial Audit.....	1
Compliance Audit.....	4
 <b>BASIC FINANCIAL STATEMENTS</b>	
Government-Wide Financial Statements:	
Statement of Net Position .....	6
Statement of Activities.....	7
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	8
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position .....	9
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds .....	10
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	11
Notes to Financial Statements.....	12
 <b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Budgetary Comparison Schedule.....	19
Notes to Required Supplementary Information .....	20
 <b>OTHER SUPPLEMENTARY INFORMATION</b>	
Computation of Low and Moderate Income Housing Funds Excess/Surplus .....	21

CITY OF ORANGE HOUSING SUCCESSOR

STATEMENT OF NET POSITION  
JUNE 30, 2015

---

	<u>Governmental Activities</u>
<b>ASSETS:</b>	
Cash and investments	\$ 8,362,578
Receivables:	
Notes and loans	21,379,129
Accrued interest	<u>13,878</u>
Total assets	<u>29,755,585</u>
 <b>DEFERRED OUTFLOWS OF RESOURCES:</b>	
Deferred pension related items	<u>20,933</u>
Total Deferred Outflows of Resources	<u>20,933</u>
 <b>LIABILITIES:</b>	
Noncurrent liabilities:	
Net pension liability	<u>268,115</u>
Total Liabilities	<u>268,115</u>
 <b>DEFERRED INFLOWS OF RESOURCES:</b>	
Deferred pension related items	<u>58,722</u>
Total Deferred Inflows of Resources	<u>58,722</u>
 <b>NET POSITION:</b>	
Restricted for:	
Housing projects	<u>29,449,681</u>
Total Net Position	<u><u>\$ 29,449,681</u></u>



CITY OF ORANGE HOUSING SUCCESSOR

STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2015

	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	\$ 32,808	-	-	-	(32,808)
Community development	47,639	-	-	-	(47,639)
Economic development	374,157	-	-	-	(374,157)
Total Governmental Activities	\$ 454,604	-	-	-	(454,604)
Total Primary Government	\$ 454,604	-	-	-	(454,604)
General Revenues:					
Use of money and property					115,266
Other					1,000
Total General Revenues					116,266
Change in Net Position					(338,338)
Net Position at Beginning of Year					29,788,019
<b>Net Position at End of Year</b>					<b>\$ 29,449,681</b>

CITY OF ORANGE HOUSING SUCCESSOR

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2015

---

**ASSETS:**

Pooled cash and investments	\$ 8,362,578
Receivables:	
Notes and loans	21,379,129
Accrued interest	<u>13,878</u>
Total Assets	<u><u>29,755,585</u></u>

**DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:**

DEFERRED INFLOWS OF RESOURCES:

Unavailable revenues	<u>1,012,000</u>
Total Deferred Inflows of Resources	<u><u>1,012,000</u></u>

FUND BALANCES:

Nonspendable:	
Notes and loans	20,367,129
Restricted for:	
Housing projects	<u>8,376,456</u>
Total Fund Balances	<u><u>28,743,585</u></u>

Total Deferred Inflows of Resources and Fund Balances	<u><u>\$ 29,755,585</u></u>
--	-----------------------------

CITY OF ORANGE HOUSING SUCCESSOR

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2015

---

Fund balances of governmental funds	\$ 28,743,585
Amounts reported for governmental activities in the statement of net position are different because:	
Revenues reported as unavailable revenue in the governmental funds are recognized in the statement of activities.	1,012,000
Governmental funds report all pension contributions as expenditures. However, the net pension liability has a measurement date of June 30, 2014, and pension contributions subsequent to the measurement date are reclassified as deferred pension contributions.	(268,115)
Adjustment due to the changes in the proportionate share of the pension plan is recorded as deferred outflows of resources and amortized over the remaining service life.	20,933
The difference between the proportionate share of the projected and actual earnings on the pension plan investments is reported as deferred inflows of resources and amortized over straight line 5 years.	(58,722)
<b>Net Position of governmental activities</b>	<u><u>\$ 29,449,681</u></u>

CITY OF ORANGE HOUSING SUCCESSOR

STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2015

---

**REVENUES:**

Use of money and property	\$ 158,916
Miscellaneous	<u>229,350</u>
Total Revenues	<u>388,266</u>

**EXPENDITURES:**

Current:

General government	33,737
Community development	47,639
Economic development	<u>374,157</u>

Total Expenditures	<u>455,533</u>
--------------------	----------------

Net Change in Fund Balances	<u>(67,267)</u>
-----------------------------	-----------------

Fund Balances, Beginning of Year	<u>28,810,852</u>
----------------------------------	-------------------

<b>Fund Balances, End of Year</b>	<u><u>\$ 28,743,585</u></u>
-----------------------------------	-----------------------------

CITY OF ORANGE HOUSING SUCCESSOR

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
JUNE 30, 2015

---

Net change in fund balances - total governmental funds	\$ (67,267)
Amounts reported for governmental activities in the statement of activities are different because:	
Revenues reported as unavailable revenue in the governmental funds are recognized in the statement of activities.	(272,000)
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.	929
	<hr/>
<b>Net change in net position of governmental activities</b>	<b><u><u>\$ (338,338)</u></u></b>

**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. Eliminations have been made to minimize the double counting of internal activities. For the most part, the effect of interfund activity has been removed from these statements.

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. 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. 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 City 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.

Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are 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**

The Housing Successor's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For financial statement presentation purposes, cash and cash equivalents are shown as both unrestricted and restricted cash and investments.

Investments are reported at fair value, the value at which a financial instrument could be exchanged in a current transaction between willing parties, other than a forced liquidation sale. The Housing Successor's investment activity is included under the City's investment policy. The City's policy is generally to hold investments until maturity or until market values equal or exceed cost.

**Note 1: Significant Accounting Policies (Continued)**

The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

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 is reported only in the statement of net position, arising under the full accrual basis of accounting.

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 two types of items that qualify for reporting in this category. The first item, unavailable revenues from various sources: taxes, long-term loans, and grant monies, is reported only in the governmental funds balance sheet, and arises under a modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second item 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.

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



**Note 1: Significant Accounting Policies (Continued)**

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, 2015.

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, 2015.

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

**Note 1: Significant Accounting Policies (Continued)**

An individual governmental fund could include non-spendable resources and amounts that are restricted or unrestricted (committed, assigned, or unassigned) or any combination of those classifications. Restricted amounts are to be considered spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available and committed, assigned, then unassigned, amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

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, 2013  
Measurement Date (MD) June 30, 2014  
Measurement Period (MP) July 1, 2013 to June 30, 2014

**Note 2: Cash and Cash Equivalents**

As of June 30, 2015, cash and investments were reported in the accompanying financial statements as follows:

Deposits with financial institutions	<u>\$ 8,362,578</u>
Total cash and cash equivalents	<u>\$ 8,362,578</u>

The Housing Successor's fund is pooled with the City of Orange'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 comprehensive annual financial report of the City.

**Note 3: Loans and Deferred Loans Receivable****a. Loans Receivable**

With the dissolution of the Redevelopment Agency effective January 31, 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. First-time homebuyer loans assist new homebuyers with 10% of the purchase price, up to a maximum of \$22,500. Repayment is deferred for five years at 0% interest, and then is payable in monthly installments in years 6 through 15 at 5% per annum. State law now requires longer affordability covenant terms. 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, 2015, the outstanding balance of these loans was \$20,367,129.

**b. Deferred Loans Receivable**

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. Because of the length of the deferral on these loans, the Housing Successor has recorded a "deferred inflow of resources" in the full amount of the loans outstanding. At June 30, 2015, the outstanding balance of these loans was \$1,012,000.

**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.

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, 2015.

CITY OF ORANGE HOUSING SUCCESSOR

BUDGETARY COMPARISON SCHEDULE  
 YEAR ENDED JUNE 30, 2015

	Budgetary Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Use of money and property	\$ 51,780	51,780	158,916	107,136
Miscellaneous	-	-	229,350	229,350
<b>Total Revenues</b>	<b>51,780</b>	<b>51,780</b>	<b>388,266</b>	<b>336,486</b>
<b>EXPENDITURES:</b>				
Current:				
General government				
City manager	12,796	12,796	9,783	3,013
Finance	35,332	35,332	23,954	11,378
Community development	49,357	49,357	47,639	1,718
Economic development	87,843	387,843	374,157	13,686
Capital outlay	-	6,750,000	-	6,750,000
<b>Total Expenditures</b>	<b>185,328</b>	<b>7,235,328</b>	<b>455,533</b>	<b>6,779,795</b>
<b>Net Change in Fund Balances</b>	<b>(133,548)</b>	<b>(7,183,548)</b>	<b>(67,267)</b>	<b>(7,116,281)</b>
Fund Balances, Beginning of Year	28,810,852	28,810,852	28,810,852	-
<b>Fund Balances, End of Year</b>	<b>\$ 28,677,304</b>	<b>21,627,304</b>	<b>28,743,585</b>	<b>(7,116,281)</b>

### **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 department and fund levels. 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, 2014	Low and Moderate Housing Funds All Project Area July 1, 2015
Opening Fund Balance	\$ 28,810,852	\$ 28,743,585
Less Unavailable Amounts:		
Loans receivable	\$ (20,540,577)	\$ (20,367,129)
	<u>(20,540,577)</u>	<u>(20,367,129)</u>
Available Low and Moderate Income Housing Funds	8,270,275	8,376,456
Limitation (greater of \$1,000,000 or four years set-aside)		
Set-Aside for last four years:		
2014 - 2015	-	388,266
2013 - 2014	197,523	197,523
2012 - 2013	536,786	536,786
2011 - 2012	24,308	24,308
2010 - 2011	- *	- *
Total	<u>\$ 758,617</u>	<u>\$ 1,146,883</u>
Base Limitation	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
Greater amount	<u>1,000,000</u>	<u>1,146,883</u>
<b>Computed Excess/Surplus</b>	<u>\$ 7,270,275</u>	<u>\$ 7,229,573</u> A

\* The Housing Successor Agency was created in February 2012 and therefore there were no deposits made prior to its existence.

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.