

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

**FINANCIAL STATEMENTS**

**FISCAL YEAR ENDED JUNE 30, 2021**

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

**ORANGE HOUSING SUCCESSOR  
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

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## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

#### ***Opinions***

We have audited the accompanying financial statements of the governmental activities and the City of Orange Housing Successor Special Revenue Fund (the Housing Successor), a major fund of the City of Orange, California (the City) as of and for the year ended June 30, 2021, 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.

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 Special Revenue Fund of the City as of June 30, 2021, 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.

#### ***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***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 as a whole, as of June 30, 2021, 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.

#### ***Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the date of the financial statements.





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

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Other Reporting Responsibilities***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.



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

Management has omitted the management's discussion and analysis, schedule of proportionate share of net pension liability, schedule of plan contributions, and the schedule of changes in total OPEB liability and related ratios 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2021, 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 solely 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 the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Lance, Solt &amp; Lughard, LLP".

Brea, California  
December 13, 2021



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE 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 Housing Successor**

***Opinion***

We have audited the City of Orange Housing Successor (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 section applicable to California Housing Successor Agencies for the year ended June 30, 2021.

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, 2021.

***Basis for Opinion***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of California Health and Safety Code sections applicable to California Housing Successor Agencies. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Housing Successor and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of the Housing Successor's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts applicable to the Housing Successor programs.





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

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above, whether due to fraud or error, and express an opinion on the Housing Successor's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the California Health and Safety Code sections applicable to California Housing Successor Agencies will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Housing Successor's compliance with the requirements of the government program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and California Health and Safety Code sections applicable to California Housing Successor Agencies, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Housing Successor's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Housing Successor's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with California Health and Safety Code sections applicable to California Housing Successor Agencies, but not for the purpose of expressing an opinion on the effectiveness of the Housing Successor's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on 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 requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program 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.



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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be a material weakness, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that have not been identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended December 13, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 13, 2021, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying report on excess/surplus calculation is presented for purposes of additional analysis as required by the California Health and Safety Code sections applicable to California Housing Successor Agencies and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the report on excess/surplus calculation is fairly stated in all material respects in relation to the basic financial statements as a whole.

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 the California Health and Safety Code sections applicable to California Housing Successor Agencies. Accordingly, this report is not suitable for any other purpose.

*Lance, Solt & Luyhard, LLP*

Brea, California  
December 13, 2021



CITY OF ORANGE HOUSING SUCCESSOR

STATEMENT OF NET POSITION  
JUNE 30, 2021

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	<u>Governmental Activities</u>
<b>ASSETS:</b>	
Pooled cash and investments	\$ 2,594,041
Receivables:	
Notes and loans (net of allowance for net present value)	18,618,277
Accrued interest	2,247
Accounts	25
Total Assets	<u>21,214,590</u>
 <b>DEFERRED OUTFLOWS OF RESOURCES:</b>	
Deferred pension related items	49,319
Deferred other post employment benefits	31,337
Total Deferred Outflows of Resources	<u>80,656</u>
 <b>LIABILITIES:</b>	
Noncurrent liabilities:	
Net pension liability	385,558
Total Other post employment benefits	160,307
Total Liabilities	<u>545,865</u>
 <b>DEFERRED INFLOWS OF RESOURCES:</b>	
Deferred pension related items	1
Deferred other post employment benefits	917
Total Deferred Inflows of Resources	<u>918</u>
 <b>NET POSITION:</b>	
Unrestricted	<u>20,748,463</u>
Total Net Position	<u><u>\$ 20,748,463</u></u>

See Notes to Financial Statements

CITY OF ORANGE HOUSING SUCCESSOR

STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2021

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Governmental Activities
Functions/Programs					
Governmental Activities:					
General government	\$ 28,729	-	-	-	(28,729)
Community development	60,901	-	-	-	(60,901)
Economic development	45,806	-	-	-	(45,806)
Total Governmental Activities	<u>\$ 135,436</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(135,436)</u>
Total Primary Government	<u>\$ 135,436</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(135,436)</u>
General Revenues:					
Use of money and property					677,635
Miscellaneous Income					<u>352,988</u>
Total General Revenues					<u>1,030,623</u>
Change in Net Position					895,187
Net Position at Beginning of Year					<u>19,853,276</u>
<b>Net Position at End of Year</b>					<u><u>\$ 20,748,463</u></u>

See Notes to Financial Statements

CITY OF ORANGE HOUSING SUCCESSOR

BALANCE SHEET  
GOVERNMENTAL FUND  
JUNE 30, 2021

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**ASSETS:**

Pooled cash and investments	\$	2,594,041
Receivables:		
Notes and loans (net of allowance for net present value)		18,618,277
Accrued interest		2,247
Accounts		25
Total Assets		<u>21,214,590</u>

**FUND BALANCE:**

Restricted		<u>21,214,590</u>
Total Fund Balance	\$	<u>21,214,590</u>

See Notes to Financial Statements

CITY OF ORANGE HOUSING SUCCESSOR

RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUND  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2021

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Fund balance of governmental fund \$ 21,214,590

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

Pension/OPEB 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/OPEB 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 - pension	49,319
Deferred outflows of resources - OPEB	31,337
Deferred inflows of resources - pension	(1)
Deferred inflows of resources - OPEB	(917)
Pension liability	(385,558)
Total OPEB Liability	<u>(160,307)</u>

**Net Position of governmental activities** **\$ 20,748,463**

See Notes to Financial Statements

CITY OF ORANGE HOUSING SUCCESSOR

STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
YEAR ENDED JUNE 30, 2021

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**REVENUES:**

Use of money and property	\$ 677,635
Miscellaneous Income	<u>352,988</u>
Total Revenues	<u>1,030,623</u>

**EXPENDITURES:**

Current:

General government	28,729
Community development	60,901
Economic development	<u>32,550</u>

Total Expenditures 122,180

Net Change in Fund Balance 908,443

Fund Balance, Beginning of Year 20,306,147

Fund Balance, End of Year \$ 21,214,590

See Notes to Financial Statements

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, 2021

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Net change in fund balance - governmental fund	\$ 908,443
Other post employment benefits expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in government funds.	(9,120)
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.	(4,136)
	<hr/>
<b>Net change in net position of governmental activities</b>	<b><u><u>\$ 895,187</u></u></b>

See Notes to Financial Statements

## **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 income for cash and investments excluded from pooled cash is credited directly



**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 net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time. The Housing Successor has items related to the pension and OPEB plans that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred of inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Housing Successor has items related to the pension and OPEB plans that qualify for reporting in this category.

**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 Housing Successor'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 Housing Successor'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.

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

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, 2021.

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, 2021.

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

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.

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**

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As of June 30, 2021, cash and investments were reported in the accompanying financial statements as follows:

Equity in City investment pool	<u>\$ 2,594,041</u>
Total cash and investments	<u><u>\$ 2,594,041</u></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.

**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. The balance of the loan at June 30, 2021, net of allowance for net present value, is \$18,618,277.

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, 2021, the outstanding amount for these loans was \$465,000. 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, 2016 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, 2021.

**Note 4: Retirement Plan (continued)**

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, 2021.

The City allocates a percentage of the GASB 68 net pension liability, deferred outflows, deferred inflows, and required supplementary information to the Housing Successor based on its pro rata share of the actual employer pension cost to the City.

**Note 5: Other Post Employment Benefits (OPEB)**

The City administers an Agent Multiple-Employer defined benefit post-employment healthcare plan for eligible City retirees and their dependents through the California Public Employees' Retirement System (CalPERS). Retirees from the City enrolled in the Public Employees Medical and Hospital Insurance Program (PEMHCA), a single-employer postemployment benefits plan through CalPERS, are eligible for these benefits. These health insurance benefits are authorized through City Resolutions/Memorandas of Understanding defining health care benefits and contribution levels and through the contractual agreement between the City and CalPERS. The City currently contributes \$139 per month for each retiree and the retiree is responsible for the balance of the premium amount.

The City allocates a percentage of the GASB 75 OPEB total liability, deferred outflows and inflows, and required supplementary information to the Housing Successor based on its pro rata share determined by an actuarial valuation annually.

**Note 6: Subsequent Event**

In preparing these financial statements, the Housing Successor has evaluated events and transactions for potential recognition or disclosure through December 13, 2021, 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, 2021

	Budgetary Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Use of money and property	\$ 105,798	105,798	677,635	571,837
Miscellaneous Income	-	-	352,988	352,988
Total Revenues	<u>105,798</u>	<u>105,798</u>	<u>1,030,623</u>	<u>924,825</u>
<b>EXPENDITURES:</b>				
Current:				
General government				
City manager	146	146	146	-
Finance	27,876	27,876	28,583	(707)
Community development	60,684	60,684	60,901	(217)
Economic development	32,558	1,282,558	32,550	1,250,008
Total Expenditures	<u>121,264</u>	<u>1,371,264</u>	<u>122,180</u>	<u>1,249,084</u>
Net Change in Fund Balance	(15,466)	(1,265,466)	908,443	2,173,909
Fund Balance, Beginning of Year	<u>19,977,968</u>	<u>19,727,968</u>	<u>20,306,147</u>	<u>578,179</u>
<b>Fund Balance End of Year</b>	<u><u>\$ 19,962,502</u></u>	<u><u>\$ 18,462,502</u></u>	<u><u>\$ 21,214,590</u></u>	<u><u>\$ 2,752,088</u></u>

### **Budgetary Accounting**

Annual budgets are adopted by July 1 of each year on a basis consistent with generally accepted accounting principles for all governmental funds. The budget is monitored to ensure compliance with legal provisions embodied in the appropriated budget as approved or amended by the City Council throughout the year. Department heads are responsible for monitoring their department's appropriated budget.

Legal level of Control – The legal level of budgetary control is at the department level within each fund. Transfers of appropriations between funds, between departments within a fund, and between capital outlay or debt service and another object group classification within a department, require City Council approval. All other transfers of appropriations can be made with City management approval.

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, 2021	
Opening Fund Balance		\$ 21,214,590
Less Unavailable Amounts:		
Loans receivable	\$ (18,618,277)	<u>(18,618,277)</u>
Available Low and Moderate Income Housing Funds		2,596,313
Limitation (greater of \$1,000,000 or four years set-aside)		
Set-Aside for last four years:		
2020 - 2021	1,030,623	
2019 - 2020	707,554	
2018 - 2019	275,177	
2017 - 2018	306,987	
Total	<u>\$ 2,320,341</u>	
Base Limitation	<u>\$ 1,000,000</u>	
Greater amount		<u>2,320,341</u>
<b>Computed Excess/Surplus</b>		<u>\$ 275,972 A</u>

A. An Excess Surplus was developed for fiscal year ended June 30, 2021. 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, 2024. 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.