



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 Pasadena, California

Report on Compliance for the Housing Successor

We have audited the City of Pasadena Housing Successor's (the Housing Successor) compliance with the type of compliance requirements described in the California Health and Safety Code sections applicable to California Housing Successor Agencies for the year ending June 30, 2017.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the Housing Successor complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its Housing Successor for the year ending June 30, 2017.

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.





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

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

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

Noncompliance

Per California Health and Safety Code section 34176.1, "If a housing successor has an excess surplus, the housing successor shall encumber the excess surplus for the purposes described in paragraph (3) of subdivision (a) or transfer the funds pursuant to paragraph (2) of subdivision (c) within three fiscal years. If the housing successor fails to comply with 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." We noted that the City has had an excess surplus since 2014 and has not yet encumbered or transferred the full amount of the funds.

Management's Response: The Excess/Surplus amount required to be encumbered by 6/30/17 was \$644,915. Of this total, \$451,440 was expensed and encumbered for eligible activities. The balance, \$193,475, is required to be expended on projects serving Extremely Low Income (30% Area Median Income) households. Such projects include permanent supportive housing of which there were none available to commit the funds. On 12/18/17, the City submitted a request to the State to transfer the remaining balance and add it to the \$929,745 FY 2018 Excess/Surplus encumbrance obligation. City staff plans to bring recommendations to City Council to encumber the Housing Successor Excess/Surplus obligation by the end of FY 2018.

Housing Successor's Response to Findings

The Housing Successor's response to the findings identified in our audit was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.



CPAs AND ADVISORS

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

Report on Excess/Surplus Calculation

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pasadena as of and for the year ended June 30, 2017, and have issued our report thereon dated December 15, 2017, 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,

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.

Lance, Solt & Lughard, LLP

Brea, California
December 15, 2017

CITY OF PASADENA HOUSING SUCCESSOR

COMPUTATION OF HOUSING SUCCESSOR
EXCESS/SURPLUS (HSC 34176.1)

	(Projected) Low and Moderate Housing Funds All Project Area July 1, 2016	(Projected) Low and Moderate Housing Funds All Project Area July 1, 2017
Opening Fund Balance	\$ 5,416,341	\$ 5,362,379
Less Unavailable Amounts:		
Land held for resale	<u>\$ (1,400,000)</u>	<u>\$ -</u>
	(1,400,000)	-
Available Housing Successor Funds	4,016,341	5,362,379
Limitation (greater of \$1,000,000 or four years deposits)		
Aggregate amount deposited for last four years:		
2016 - 2017	N/A	1,400,438
2015 - 2016	521,033	521,033
2014 - 2015	667,293	667,293
2013 - 2014	234,172	234,172
2012 - 2013	<u>1,282,996</u>	<u>N/A</u>
Total	<u>\$ 2,705,494</u>	<u>\$ 2,822,936</u>
Base Limitation	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
Greater amount	<u>\$ 2,705,494</u>	<u>\$ 2,822,936</u>
Computed Excess/Surplus	<u>\$ 1,310,847</u>	<u>\$ 2,539,443</u> *

* This is the estimated future excess/surplus in 2016/2017. Please note: If a housing successor has an excess surplus, the housing successor shall encumber the excess surplus for the purposes described in paragraph (3) of subdivision (a) of Health and Safety Code 34176.1 or transfer the funds pursuant to paragraph (2) of subdivision (c) of 34176.1 within three fiscal years. If the housing successor fails to comply with 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.