ROSEMEAD HOUSING DEVELOPMENT CORPORATION

FINANCIAL AND COMPLIANCE REPORT

Fiscal Year Ended June 30, 2017

ROGERS, ANDERSON, MALODY & SCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948

ROSEMEAD HOUSING DEVELOPMENT CORPORATION
FINANCIAL AND COMPLIANCE REPORT
Fiscal Year Ended June 30, 2017

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Position	4
Statement of Activities	5
Fund Financial Statements	
Balance Sheet	6
Reconciliation of the Balance Sheet of Governmental Fund to the Statement of Net Position	7
Statement of Revenues, Expenditures, and Changes in Fund Balance	8
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities	9
Notes to the Basic Financial Statements	10
REQUIRED SUPPLEMENTARY INFORMATION	
Notes to Required Supplementary Information	19
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual – General Fund	20
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*	21

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Rosemead Housing Development Corporation
City of Rosemead, California

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Rosemead Housing Development Corporation (the Corporation), a component unit of the City of Rosemead, California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Corporation'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.

STABILITY. ACCURACY. TRUST.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Corporation, as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Rosemead Housing Development Corporation and do not purport to, and do not present fairly the financial position of the City of Rosemead, California, as of June 30, 2017, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information as listed on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2017 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
December 28, 2017

FINANCIAL STATEMENTS

Rosemead Housing Development Corporation
Statement of Net Position
June 30, 2017

	Governmental Activities
ASSETS	
Cash and investments (note 2)	$ 266,710
Accounts receivable	9,003
Capital assets, net (note 4)	7,330,536
Due from City	207,486
Total assets	7,813,735
LIABILITIES	
Refundable deposits	51,130
Due to City	204,800
Total liabilities	255,930
NET POSITION	
Net investment in capital assets	7,330,536
Unrestricted	227,269
Total net position	$ 7,557,805

The accompanying notes are an integral part of these financial statements.

Rosemead Housing Development Corporation
Statement of Activities
For the Year Ended June 30, 2017

		Program Revenues			
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Governmental Activities
Governmental activities:					
General government	$ 1,033,621	$ 433,118	$ 412,286	$ -	$ (188,217)
Total governmental activities	$ 1,033,621	$ 433,118	$ 412,286	$ -	(188,217)
General revenues:					
Investment income					12
Other general revenues					5,767
Total general revenues					5,779
Change in net position					(182,438)
Net position, beginning of year					7,740,243
Net position, end of year					$ 7,557,805

The accompanying notes are an integral part of these financial statements.

Rosemead Housing Development Corporation
Balance Sheet
Governmental Fund
June 30, 2017

	General Fund
ASSETS	
Cash and investments	$ 266,710
Accounts receivable	9,003
Due from City	207,486
Total assets	$ 483,199
LIABILITIES AND FUND BALANCE	
Liabilities:	
Refundable deposits	$ 51,130
Due to City	204,800
Total liabilities	255,930
Fund balance:	
Restricted for:	
Low and moderate income housing	227,269
Total fund balance	227,269
Total liabilities and fund balance	$ 483,199

The accompanying notes are an integral part of these financial statements.

Rosemead Housing Development Corporation
Reconciliation of the Balance Sheet of Governmental Fund
to the Statement of Net Position
June 30, 2017

Fund balance of governmental fund	$ 227,269
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets, net of depreciation, have not been included as financial resources in the governmental fund activity.	
Capital assets	11,171,141
Accumulated depreciation	(3,840,605)
Net position of governmental activities	$ 7,557,805

The accompanying notes are an integral part of these financial statements.

Rosemead Housing Development Corporation
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund
For the Year Ended June 30, 2017

	General Fund
REVENUES	
Rental income	$ 433,118
Intergovernmental	412,286
Investment income	12
Other	5,767
Total revenues	851,183
EXPENDITURES	
Operating	401,247
Administrative services paid to City of Rosemead	226,200
Facility rent paid to City of Rosemead	183,400
Total expenditures	810,847
Net change in fund balance	40,336
Fund balance, beginning of year	186,933
Fund balance, end of year	$ 227,269

The accompanying notes are an integral part of these financial statements.

Rosemead Housing Development Corporation
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities
For the Year Ended June 30, 2017

Net change in fund balance - total governmental fund	$	40,336
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. Therefore, depreciation expense is not reported as an expenditure in the governmental funds.		
Depreciation expense		(222,774)
Change in net position of governmental activities	$	(182,438)

The accompanying notes are an integral part of these financial statements.

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The Rosemead Housing Development Corporation (the Corporation) is a nonprofit corporation whose purpose is to provide assistance to the Rosemead Community Development Commission (the Commission) to account for the construction, financing and operations of low and moderate income housing for the benefit of the City of Rosemead (the City). The Corporation currently maintains the Angelus and Garvey Senior Housing facilities. The Corporation is exempt from income taxes under Section 501 (c)(3) of the Internal Revenue Code (IRC) and applicable state statutes.

Governmental Accounting Standards Board (GASB) Statement No. 14, The *Financial Reporting Entity,* defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's Board and either (a) the primary government has the ability to impose its will or (b) the possibility exists that the component unit will provide a financial benefit to or impose a financial burden on the primary government. Since the Board of Directors of the Commission and the Council members also serve as the Board of Directors of the Corporation, the Commission and the City, in effect, have the ability to influence and control operations. Therefore, the City has oversight responsibility for the Corporation. Accordingly, in applying the criteria of GASB Statement No. 14, the financial statements of the Corporation are included in the City's financial reports.

The Corporation has the same fiscal year as the City. These financial statements contain information for the Corporation only. The City's financial report may be obtained by contacting the Financial Department of the City.

As a result of the Assembly Bill X1 26 signed into law as part of the State of California's budget package on June 29, 2011, the Rosemead Community Development Commission ceased to exist as of February 1, 2012. On January 10, 2012, the City Council elected to serve as the successor agency to the Commission, and retain the housing assets and functions previously held and performed by the Commission.

(b) Basis of Accounting and Measurement Focus

The *basic financial statements* of the Corporation are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

(1) Summary of Significant Accounting Policies, (continued)

(b) Basis of Accounting and Measurement Focus, (continued)

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government (including its blended component units), as well as its discretely presented component units. The Corporation has no business-type activities or discretely presented component units.

Government-wide financial statements are presented 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 of the reporting government are reported in the government-wide financial statements. Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

Program revenues include charges for services and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

(1) Summary of Significant Accounting Policies, (continued)

(b) Basis of Accounting and Measurement Focus, (continued)

Fund Financial Statements

The underlying accounting system of the Corporation is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government's governmental, proprietary, and fiduciary funds are presented after the government-wide financial statements. These statements display information about major funds individually and nonmajor funds in the aggregate for governmental and enterprise funds. Fiduciary statements include financial information for fiduciary funds and similar component units. Fiduciary funds primarily represent assets held by the Corporation in a custodial capacity for other individuals or organizations. The Corporation has no enterprise funds or fiduciary funds.

Governmental Funds

In the fund financial statements, governmental funds and agency funds are presented using the *modified-accrual basis of accounting.* Their revenues are recognized when they become *measurable* and *available*. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The Corporation uses a sixty day availability period.

Revenue recognition is subject to the *measurable* and *available* criteria for the governmental funds in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., when the related goods or services are provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed non-exchange* transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary nonexchange transactions* are recognized as revenues when all applicable eligibility requirements have been met.

(1) Summary of Significant Accounting Policies, (continued)

(b) Basis of Accounting and Measurement Focus, (continued)

Governmental Funds (continued)

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus.* This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of “available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources," since they do not represent net current assets. Recognition of governmental fund type revenues represented by noncurrent receivables are deferred until they become current receivables.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as an *other financing source* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

(c) Major Fund

The Corporation reports the General Fund as its only major fund.

(1) Summary of Significant Accounting Policies, (continued)

(d) Cash and Investments

Cash includes amounts in demand and time deposits. Investments, if any, are reported in the accompanying balance sheet at fair value, except for certain money market and investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates.

Changes in fair value that occur during a fiscal year are recognized as income from property and investments reported for that fiscal year. Income from property and investments includes interest earnings, changes in fair value, any gains or losses realized upon the liquidation, maturity or sale of investments, property rentals, and the sale of City-owned property.

(e) Capital Assets

Capital assets, which include buildings and improvements, and furniture and equipment, are reported as part of governmental activities in the government-wide financial statements. Capital assets are defined by the Corporation as assets with an initial, individual cost of more than $10,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost, or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized.

Costs associated with construction in progress are recorded in their respective capital assets category upon approval by the Corporation's governing board, which approximates the completion date.

Depreciation is charged to operations using the straight-line method based on the estimated useful life of an asset. The estimated useful lives of depreciable assets are as follows:

Buildings	50 years
Improvement	15 years
Furniture and equipment	7 years

(f) Income Taxes

The Corporation is exempt from federal income taxes under Section 501(c)(3) of the IRC and a similar exemption under state law.

(1) Summary of Significant Accounting Policies, (continued)

(g) Fund Balance

The Corporation reports fund balance in classifications that describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.
- Restricted – amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions or by enabling legislation.
- Committed – amounts constrained to specific purposes by a government itself, using the highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.
- Assigned – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- Unassigned – amounts that are for any purpose; positive amounts are reported only in a general fund.

The Board of Directors establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. The Board designates the Finance Committee and City Manager as the Corporation officials to determine, define, and make the necessary account or fund transfers for the amounts to those components of fund balance that are classified as “Assigned Fund Balance.”

When both restricted and unrestricted resources are available for use when an expenditure is incurred, it is the Corporation’s policy to use restricted resources first, then unrestricted resources as they are needed. It is the Corporation’s policy to consider committed amounts as being reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

(1) Summary of Significant Accounting Policies, (continued)

(h) Rental Income

A management company collects rent payments on the first day of the month and the corporation recognizes revenue in the month due. Monthly rental income per unit ranges from $250 to $450 and is approved by the annual budget.

(i) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(2) Cash and Investments

Cash and investments at June 30, 2017 consisted of deposits with financial institutions. The carrying amount of the Corporation's deposits was $266,710.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Corporation maintains its bank accounts at financial institutions that are collateralized with securities held by the pledging financial institution, or by its Trust Department or agent, but not in the Corporation's name. The primary difference between the carrying amount and the bank balance are deposits in transit and outstanding checks. In accordance with state statutes, the Corporation maintains deposits at those depository institutions insured by the FDIC. The California Government Code (the Code) requires California banks and savings and loan associations to collateralize the deposits of governmental entities by pledging government securities as collateral. The market value of pledge securities must equal at least 110% of those deposits. California law also allows financial institutions to secure the deposits of governmental entities by pledging first trust deed mortgage notes having a collateral value of 150% of a corporation's total deposits. As of June 30, 2017, the Corporation had no deposits with financial institutions in excess of federal depository insurance limits.

(3) Reimbursement Agreements and Related-party Transactions

The Corporation has entered into a reimbursement agreement with the City for the Corporation's administrative services. The Corporation paid $226,200 for administrative services to the City during the year ended June 30, 2017. The Corporation is funded, in part, by advances from the Commission.

(3) Reimbursement Agreements and Related-party Transactions, (continued)

The Corporation has also entered into a 55-year lease agreement with the City for the Angelus Senior Housing facility at $60,000 annually, expiring June 2047. Total lease commitments remaining are $1,613,104 for the Angelus Senior Housing facility at June 30, 2017. The Corporation has also entered into a 55-year lease agreement with the City for the Garvey Senior Housing facility at $72,000 annually, expiring November 2057. Total lease commitments remaining are $2,789,107 for the Garvey Senior Housing facility at June 30, 2017. The Corporation paid $91,200 and $92,200 in lease payments to the City during the year ended June 30, 2017 for the Angelus and Garvey Senior Housing facilities, respectively.

(4) Capital Assets

During the year ended June 30, 2017, the changes in capital assets were as follows:

	Balance at June 30, 2016	Additions	Deletions	Balance at June 30, 2017
Government activities:				
Capital assets being depreciated:				
Buildings and improvements	$11,042,597	$ -	$ -	$ 11,042,597
Furniture and equipment	128,544	-	-	128,544
Total capital assets being depreciated	11,171,141	-	-	11,171,141
Less accumulated depreciation:				
Buildings and improvements	(3,489,287)	(222,774)	-	(3,712,061)
Furniture and equipment	(128,544)	-	-	(128,544)
Total accumulated depreciation	(3,617,831)	(222,774)	-	(3,840,605)
Governmental activities capital assets, net	$ 7,553,310	$ (222,774)	$ -	$ 7,330,536

Depreciation expense is allocated to the general government function in the statement of activities.

(5) Risk Management

The Corporation is exposed to various risks of loss related to torts, thefts of, damage to and destruction of assets, errors and omissions, and natural disasters. The Corporation, through the City, carries commercial liability insurance coverage. The Corporation carries no insurance coverage for natural disasters. Since the Corporation does not have any employees (it uses employees from the City), it is not liable for injury to employees, workers' compensation, or employee health and accident insurance. The City has had no reduction in insurance coverage, nor did the City have any settlements that were in excess of insurance coverage in any of the three preceding years.

(6) Property Management and Operations

The Corporation has two agreements with a management company, dated July 1994 and April 2002, to operate the development housing. These agreements are automatically renewed for successive periods of one year, unless terminated by the Corporation. The management company is responsible for collecting rents and receipts, employing an on-site manager and maintaining financial records. Total fees paid to the management company were $25,092 for the Angelus Senior Housing facility and $35,424 for the Garvey Senior Housing facility during fiscal year ended June 30, 2017.

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the governmental fund. All annual appropriations lapse at fiscal year end.

On or before the last day in March of each year, all agencies of the government submit requests for appropriations to the government's manager so that a budget may be prepared. Before the first Thursday of June, the proposed budget is presented to the Corporation's governing board for review. The governing board holds public hearings and a final budget must be prepared and adopted no later than June 30.

The appropriated budget is prepared by fund, function and department. The Corporation's department heads, with approval of the Finance Director and City Manager, may make transfers of appropriations within a department and between departments within a fund. Transfers of appropriations between funds must be approved by the governing board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

Rosemead Housing Development Corporation
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - General Fund
For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Rental income	$ 437,400	$ 437,400	$ 433,118	$ (4,282)
Intergovernmental	-	-	412,286	412,286
Investment income	-	-	12	12
Other	8,100	8,100	5,767	(2,333)
Total revenues	445,500	445,500	851,183	405,683
EXPENDITURES				
Operating	434,000	434,000	401,247	32,753
Administrative services paid to City of Rosemead	226,200	226,200	226,200	-
Facility rent paid to City of Rosemead	183,400	183,400	183,400	-
Total expenditures	843,600	843,600	810,847	32,753
Net change in fund balance	(398,100)	(398,100)	40,336	438,436
Fund balance, beginning of year	186,933	186,933	186,933	-
Fund balance, end of year	$ (211,167)	$ (211,167)	$ 227,269	$ 438,436

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Board of Directors
Rosemead Housing Development Corporation
City of Rosemead, California

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

INDEPENDENT AUDITOR'S REPORT

We have audited, 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, the financial statements of the governmental activities and the major fund of the Rosemead Housing Development Corporation (the Corporation), a component unit of the City of Rosemead, California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated December 28, 2017.

Internal Control Over Financial Reporting

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

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

STABILITY. ACCURACY. TRUST.

Our consideration of internal control over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
December 28, 2017