

**Adaptable Housing Development  
Project No. 12-HLCP-0004  
A Project of San Diego Housing Commission**

**Financial Statements  
(With Supplementary Information)  
and Independent Auditor's Report**

**June 30, 2017**

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**Adaptable Housing Development  
Project No. 12-HLCP-0004  
A Project of San Diego Housing Commission**

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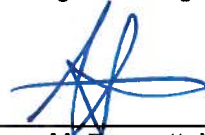
**Adaptable Housing Development  
Project No. 12-HLCP-0004  
A Project of San Diego Housing Commission**

**June 30, 2017**

**Certificate of Owner**

I, as an officer of the San Diego Housing Commission, owner of Adaptable Housing Development, hereby certify that I have examined the accompanying financial statements and supplementary information of Adaptable Housing Development as of and for the year ended June 30, 2017 and, to the best of my knowledge and belief, these financial statements and supplementary information are complete and accurate.

San Diego Housing Commission



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Tracey McDermott, Vice President and  
Chief Financial Officer

Employer Identification  
Number: 95-3390896

**Adaptable Housing Development  
Project No. 12-HLCP-0004  
A Project of San Diego Housing Commission**

**June 30, 2017**

Managing Agent's Certification

I hereby certify that I have examined the accompanying financial statements and supplementary data of Adaptable Housing Development as of and for the year ended June 30, 2017 and, to the best of my knowledge and belief, the same are complete and accurate.



San Diego Housing Commission  
Tracey McDermott, Vice President and  
Chief Financial Officer

9/26/2017

Date

Independent Auditor's Report

To the Board of Commissioners  
San Diego Housing Commission

*Report on the Financial Statements*

We have audited the accompanying financial statements of Adaptable Housing Development Project No. 12-HLCP-0004 (the "Project") owned by San Diego Housing Commission ("SDHC"), which comprise the statement of net position as of June 30, 2017, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

*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 an opinion 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 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 opinion.

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Diego Housing Commission's Adaptable Housing Development Project No. 12-HLCP-0004 as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Emphasis of Matter*

As described in Note 2, the financial statements referred to above present only the financial position and changes in financial position of the Project and do not purport to, and do not, present fairly, the financial position of SDHC as of June 30, 2017 and the changes in its financial position and its cash flows for the year then ended in conformity 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

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 an opinion on the financial statements as a whole. The accompanying supplementary information on pages 17 to 24 as required by the California Department of Housing and Community Development is presented for purposes of additional analysis 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. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2017, on our consideration of SDHC'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 SDHC's internal control over financial reporting and compliance.



Sacramento, California  
September 26, 2017

**Adaptable Housing Development  
Project No. 12-HLCP-0004  
A Project of San Diego Housing Commission**

**Statement of Net Position  
June 30, 2017**

Assets

Current assets	
Cash and cash equivalents	\$ 50,393
Tenants' accounts receivable, net	2,547
Accounts receivable - non federal grants	14,146
Accounts receivable - other	530
	<hr/>
Total current assets	67,616
	<hr/>
Other assets	
Restricted deposits and funded reserves	339,527
	<hr/>
Total restricted deposits and funded reserves	339,527
	<hr/>
Capital assets	
Buildings and improvements	6,295,641
Less accumulated depreciation	(825,328)
	<hr/>
	5,470,313
Land	484,372
	<hr/>
Total capital assets	5,954,685
	<hr/>
Total assets	\$ 6,361,827
	<hr/> <hr/>

**Adaptable Housing Development  
Project No. 12-HLCP-0004  
A Project of San Diego Housing Commission**

**Statement of Net Position  
June 30, 2017**

Liabilities

Current liabilities	
Accounts payable - operations	\$ 10,028
Accrued expenses	2,659
Accrued interest payable - first mortgage, current	5,900
Prepaid rent	7,553
	26,140
 Deposits and prepaid liability	
Tenants' security deposits liability	14,399
	14,399
 Long-term liabilities	
Mortgage payable - first mortgage	1,404,849
Accrued interest payable - first mortgage, net of current portion	143,958
	1,548,807
 Total long-term liabilities	1,548,807
 Total liabilities	1,589,346

Net Position

Net investment in capital assets	4,549,836
Restricted	162,458
Unrestricted	60,187
	4,772,481
 Total net position	4,772,481
 Total liabilities and net position	\$ 6,361,827



**Adaptable Housing Development  
Project No. 12-HLCP-0004  
A Project of San Diego Housing Commission**

**Statement of Revenues, Expenses and Changes in Net Position  
Year Ended June 30, 2017**

Operating revenue		
Rental income	\$	131,190
Other operating income		<u>15,518</u>
Total operating revenue		<u>146,708</u>
Operating expenses		
Administrative		73,378
Utilities		23,157
Operating and maintenance		46,556
Depreciation		82,634
Taxes and insurance		<u>12,373</u>
Total operating expenses		<u>238,098</u>
Net operating loss		<u>(91,390)</u>
Nonoperating revenue (expense)		
Financial revenue - investments		1,831
Interest expense - first mortgage		<u>(42,135)</u>
Total nonoperating revenue (expense)		<u>(40,304)</u>
Change in net position before capital transactions		(131,694)
Contributions		<u>4,939,576</u>
Change in net position		4,807,882
Net position		
Beginning of year		<u>(35,401)</u>
End of year	\$	<u><u>4,772,481</u></u>

See Notes to Financial Statements.



**Adaptable Housing Development  
Project No. 12-HLCP-0004  
A Project of San Diego Housing Commission**

**Statement of Cash Flows  
Year Ended June 30, 2017**

Reconciliation of net operating loss to net cash used in operating activities	
Net operating loss	\$ (91,390)
Adjustments to reconcile net operating loss to net cash used in operating activities	
Depreciation	82,634
Bad debt	3,499
Changes in:	
Tenants' accounts receivable	(1,842)
Accounts receivable - non federal grants	(14,146)
Prepaid revenue	6,849
Accounts payable - operations	4,212
Accrued expenses	(5,793)
Tenants' security deposits liability	4,750
	<hr/>
Net cash used in operating activities	<u><u>\$ (11,227)</u></u>

**Adaptable Housing Development  
Project No. 12-HLCP-0004  
A Project of San Diego Housing Commission**

**Notes to Financial Statements  
June 30, 2017**

**Note 1 - The financial reporting entity**

The San Diego Housing Commission ("SDHC")'s Adaptable Housing Development Project consists of a 35-unit rental housing project (the "Project") located in San Diego, California. SDHC entered into a regulatory agreement and permanent loan agreement with the California Department of Housing and Community Development ("RHCP"). Under the terms of the agreements, SDHC is to submit to RHCP an annual budget of the operating revenues and operating expenses for the Project. In May 2013, SDHC and RHCP amended the original agreements and entered into a new regulatory and loan agreement under which the previous loan was refinanced and the new permanent loan was extended for a period of 55 years.

**Note 2 - Significant accounting policies**

**Basic financial statements**

The basic financial statements (i.e. the statement of net position, the statement of revenues, expenses and changes in net position and the statement of cash flows) report information on all of the activities of the Project. These basic financial statements are presented in accordance with the Governmental Accounting Standards Board standards. The accompanying financial statements are not intended to present fairly the financial position or changes in financial position and cash flows of SDHC in conformity with accounting principles generally accepted in the United States of America ("GAAP").

**Measurement focus, basis of accounting and financial statement presentation**

The basic financial statements of the Project are prepared using the economic resource measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources and liabilities and deferred inflows of resources are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

The Project distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Project's ongoing operations. The principal operating revenue of the Project is rental income from the tenants of its housing units. Operating expenses for the Project include the cost of services and general and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Project's policy to use restricted resources first, then unrestricted resources as needed.

**Cash and cash equivalents**

The Project cash and cash equivalents are maintained within the general operating bank account of SDHC. The ending balance of the operating account is allocated between several projects of SDHC based upon each projects relative cash activities. As of June 30, 2017, the reconciled balance of SDHC general cash account is \$16,987,264 of which \$50,393 belongs to the Project.

**Adaptable Housing Development  
Project No. 12-HLCP-0004  
A Project of San Diego Housing Commission**

**Notes to Financial Statements  
June 30, 2017**

**Restricted deposits and reserves**

The Project restricted deposits and reserves represent deposits to lender required reserves for replacements, operating reserve and tenant security deposits. The Project's restricted deposits and reserves are invested along with other SDHC funds to maximize income consistent with safe and prudent investment practices within the guidelines of SDHC's investment policy.

In accordance with California state statute and the U.S. Department of Housing and Urban Development ("HUD") regulations, SDHC has authorized the Chief Financial Officer or designee to invest in obligations of the U.S. Treasury, U.S. Government agencies or other investments as outlined in SDHC's Investment Policy. An Investment Committee, consisting of two Commission Board members, monitors the management of funds and compliance with SDHC's Investment Policy. SDHC utilizes the services of an experienced financial advisor to aid in making investment decisions. Working with the Investment Committee and staff, the advisor provides guidance on creating a diversified portfolio and a secure investment mix. The advisor's ongoing role is to provide staff with sound investment opportunities that will maximize liquidity and yield without sacrificing principal value and safety of the investment securities.

All investments are stated at fair value, except for money market investments with remaining maturities less than one year when purchased, which are stated at amortized cost. Money market investments are short-term, highly-liquid debt securities, such as bankers' acceptances, commercial paper, repurchase agreements, negotiable certificates of deposit and U.S. Treasury obligations. Fair value is the value at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Detailed disclosures, including investment policies and associated risk policies, regarding the Project's cash and cash equivalents, restricted deposits and reserves, and investments are included in the notes to SDHC's basic financial statements.

**Fair value**

Authoritative guidance establishes hierarchy for ranking the quality and reliability of the information used to determine fair values, requiring that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted market prices for identical assets or liabilities in active markets.

Level 2: Unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3: Significant unobservable inputs for the asset or liability.

**Resident accounts receivable**

Resident accounts receivable are due from tenants and reported net of an allowance for doubtful accounts. Management's estimate of the allowance is based on historical collection experience and a review of the current status of the receivables. It is reasonably possible that management's estimate of the allowance will change. As of June 30, 2017, the allowance for doubtful accounts was \$485.

**Adaptable Housing Development  
Project No. 12-HLCP-0004  
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**Notes to Financial Statements  
June 30, 2017**

**Capital assets**

Capital assets are stated at cost. The capitalization threshold for all capital assets is \$5,000. Expenditures for repairs and maintenance are charged to operations as incurred while major renewals and betterments are capitalized. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Building and improvements	40 years
Furnishings and improvements	5 years

**Impairment of capital assets**

SDHC reviews the capital assets of the Project for impairment whenever events or changes in circumstances indicate that there has been a decline in service utility that is large in magnitude and outside of the normal life cycle of the capital asset being evaluated. As of June 30, 2017, there has been no impairment of the capital assets.

**Rental income**

Rental income is recognized as rents become due. Rental payments received in advance are deferred until earned. All leases between SDHC and the tenants of the Project are operating leases.

**HUD public housing operating subsidy**

Effective with the fiscal year ended June 30, 2017, the Project converted to Public Housing and will begin receiving an operating subsidy from HUD. During the year ended June 30, 2017, the Project received \$0 of operating subsidy income.

**Net position**

In the statement of net position, net assets are classified in the following categories:

*Net Investment in Capital Assets* - This amount consists of capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

*Restricted* - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

*Unrestricted* - This amount is all net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

**Use of estimates**

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting year. Actual results could differ from those estimates.

**Adaptable Housing Development  
Project No. 12-HLCP-0004  
A Project of San Diego Housing Commission**

**Notes to Financial Statements  
June 30, 2017**

**Note 3 - Restricted deposits and funded reserves**

As of June 30, 2017, the restricted deposits and reserves consist of the following:

**Tenant security deposits**

The Project collects security deposits from tenants at the inception of the tenant lease. These deposits, which are reported in the basic financial statements as restricted cash, are refundable to the tenants to the extent there are no unpaid rents or damages to the housing unit. Tenant security deposits held as of June 30, 2017 amounted to \$13,200.

**Replacement reserve**

The Project shall establish and fund segregated replacement reserve account for the term of the regulatory agreement. The replacement reserve shall be funded in the initial amount of \$35,000 to provide for future major additions, repairs or replacements. The Project shall make annual deposits of \$21,000 per year. As of June 30, 2017 the replacement reserve balance is \$84,645. During the year ended June 30, 2017, the replacement reserve activity was as follows:

Balance as of June 30, 2016	\$	63,307
Deposits (\$600 x 35 units)		21,000
Interest earned		<u>338</u>
Balance as of June 30, 2017	\$	<u><u>84,645</u></u>

**Operating reserve**

The Project shall establish and fund a segregated operating reserve account pursuant the regulatory agreement. The operating reserve shall be funded by previous project cash flow and RHCP annuity payments. As of June 30, 2017, the operating reserve balance is \$77,815.

**Other investments**

The Project has other investments with a balance of \$163,867 as of June 30, 2017.

In accordance with SDHC's investment policy, the restricted deposits and reserves above are invested in the State's Local Agency Investment Fund, the San Diego County Investment Pool and other investments such as bonds, government agency securities and demand deposit accounts safe kept with commercial banking institutions. The detailed disclosures including investment policies and associated risk for each of these investments are included in the notes to SDHC's basic financial statements.

**Note 4 - Mortgage payable**

The mortgage payable to RHCP associated with acquisition of the Project is in the amount of \$1,404,849. Repayment of the interest and any outstanding principal balance is due in its entirety on the maturity date of May 10, 2068. The note bears interest of 3.00% and is payable in the annual amount of 0.42% of the outstanding principal balance. Interest expense was \$42,135 for the year ended June 30, 2017. As of June 30, 2017, outstanding principal and accrued interest is \$1,404,849 and \$149,858, respectively.

**Adaptable Housing Development  
Project No. 12-HLCP-0004  
A Project of San Diego Housing Commission**

**Notes to Financial Statements  
June 30, 2017**

**Note 5 - Management fee and sponsor overhead**

The Project incurs a management fee and overhead costs from SDHC for central office services which includes, but is not limited to clerical and management overhead expenses, such as salaries and benefits, office supplies and equipment, data processing or computer services, postage, training and telephone services. This does not include the salary of the project manager whether onsite or offsite. During the year ended June 30, 2017, SDHC allocated to the project overhead expenses in the amount of \$30,080.

**Note 6 - Concentration of credit risk**

The Project maintains its cash and cash equivalents with various financial institutions. At times, these balances may exceed the federal insurance limits; however, the Project has not experienced any losses with respect to its bank balances in excess of government provided insurance. The Project Owner believes that no significant concentration of credit risks exists with respect to these cash balances at June 30, 2017.

**Note 7 - Current vulnerability due to certain concentrations**

The Project's principal assets consist of 35 units within various apartment projects. The Project's operations are concentrated in the multifamily real estate market. In addition, the Project operates in a heavily regulated environment. The operations of the Project are subject to the administrative directives, rules and regulations of governmental agencies, including, but not limited to HUD or RHCP. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD or RHCP. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

**Note 8 - Subsequent events**

Events that occur after the date of the statement of net position but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the date of the statement of net position are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the date of the statement of net position require disclosure in the accompanying notes. Management evaluated the activity of the Project through September 26, 2017, the date the financial statements were available to be issued, and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to financial statements.



**Supplementary Information**  
**Supporting Data Required by HCD**

**Adaptable Housing Development  
Project No. 12-HLCP-0004  
A Project of San Diego Housing Commission**

**Supplementary Information  
Year Ended June 30, 2017**

**Schedule of Operating Revenue**

<u>Account No.</u>		
Rental revenue		
5120	Rent revenue - gross potential	<u>\$ 131,190</u>
5100T	Total rental revenue	131,190
5152N	Net rental revenue	<u>131,190</u>
Financial revenue		
5410	Financial revenue - project operations	1,183
5440	Revenue from investments - replacement reserve	338
5490	Revenue from investments - miscellaneous	<u>310</u>
5400T	Total financial revenue	<u>1,831</u>
Other revenue		
5910	Laundry and vending	4,695
5920	Tenant charges	1,250
5990	Miscellaneous revenue	<u>9,573</u>
5900T	Total other revenue	<u>15,518</u>
5000T	Total revenue	<u>148,539</u>

**Adaptable Housing Development  
Project No. 12-HLCP-0004  
A Project of San Diego Housing Commission**

**Supplementary Information  
Year Ended June 30, 2017**

**Schedule of Operating Expenses**

<u>Account No.</u>		
Administrative expenses		
6210	Advertising and marketing	293
6250	Other renting expenses	677
6310	Office salaries	19,633
6311	Office expenses	1,305
6320	Management fee	30,080
6340	Legal expense - project	440
6350	Auditing expense	7,000
6351	Bookkeeping fees/accounting services	9,037
6370	Bad debts	3,499
6390	Miscellaneous administrative expenses	1,414
		<hr/>
6263T	Total administrative expenses	73,378
		<hr/>
Utilities expense		
6450	Electricity	3,615
6451	Water	6,665
6452	Gas	7,198
6453	Sewer	5,679
		<hr/>
6400T	Total utilities expense	23,157
		<hr/>
Operating and maintenance expenses		
6510	Payroll	1,523
6515	Supplies	347
6520	Contracts	44,686
		<hr/>
6500T	Total operating and maintenance expenses	46,556
		<hr/>

**Adaptable Housing Development  
Project No. 12-HLCP-0004  
A Project of San Diego Housing Commission**

**Supplementary Information  
Year Ended June 30, 2017**

<u>Account No.</u>		
<u>Taxes and insurance</u>		
6710	Real estate taxes	34
6720	Property and liability insurance	3,597
6722	Workmen's compensation	227
6723	Health insurance and other employee benefits	<u>8,515</u>
6700T	Total taxes and insurance	<u>12,373</u>
 <u>Financial expenses</u>		
6820	Interest on first mortgage payable	<u>42,135</u>
6800T	Total financial expenses	<u>42,135</u>
6000T	Total cost of operations before depreciation and amortization	<u>197,599</u>
5060T	Income (loss) before depreciation and amortization	<u>(49,060)</u>
 <u>Depreciation and amortization</u>		
6600	Depreciation expense	<u>82,634</u>
	Total depreciation and amortization	<u>82,634</u>
5060N	Operating income (loss)	<u>(131,694)</u>
	Total expenses	<u>280,233</u>
3250	Change in net assets	<u><u>\$ (131,694)</u></u>

**Adaptable Housing Development  
Project No. 12-HLCP-0004  
A Project of San Diego Housing Commission**

**Supplementary Information  
Year Ended June 30, 2017**

**Detail of Accounts - Schedule of Activities**

Miscellaneous Other Revenue (Account No. 5990)

State income	\$ 9,573
	\$ 9,573
	\$ 9,573

Miscellaneous Administrative Expenses (Account No. 6390)

Travel	\$ 312
Professional consultant	154
Mileage reimbursement	115
Parking fees and permits	26
Education and training	807
	807
	\$ 1,414

**Cash on Hand and in Banks**

Unrestricted cash operating accounts  
Operating account

	\$ 50,393
	\$ 50,393
	\$ 50,393

Restricted cash accounts  
Tenant security deposits - checking  
Replacement reserve  
Operating reserve  
Investments

Tenant security deposits - checking	\$ 13,200
Replacement reserve	84,645
Operating reserve	77,815
Investments	163,867
	163,867
	\$ 339,527

**Mortgage Impound Accounts**

None.

**Adaptable Housing Development  
Project No. 12-HLCP-0004  
A Project of San Diego Housing Commission**

**Supplementary Information  
Year Ended June 30, 2017**

**Reserve for Replacement and Operating Expenses**

	Replacement reserve	Operating reserve
Balance as of June 30, 2016	\$ 63,307	\$ 77,505
Deposits (\$600 x 35 units)	21,000	-
Interest earned	338	310
	\$ 84,645	\$ 77,815

**Property, Equipment and Improvements**

Following are the details of property, equipment and improvements:

	Balance 6/30/16	Additions	Deletions	Balance 6/30/17
Land	\$ 484,372	\$ -	\$ -	\$ 484,372
Buildings	1,338,257	4,957,384	-	6,295,641
	\$ 1,822,629	\$ 4,957,384	\$ -	\$ 6,780,013

**Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses payable to suppliers are due as follows:

Current	\$ 4,970
31 to 60 days	4,926
61 to 90 days	132
	\$ 10,028

**Gross Potential Rents**

Gross potential rents includes the following:

Tenant rental payments	\$ 127,691
Bad debt	3,499
	\$ 131,190

**Management Fee**

The management fee and sponsor overhead authorized by RHCP totals \$30,080.

**Adaptable Housing Development  
Project No. 12-HLCP-0004  
A Project of San Diego Housing Commission**

**Supplementary Information  
Year Ended June 30, 2017**

**Operating Cash Flow/Surplus Cash Computation**

Operating income	
Total income	\$ 148,539
Interest earned on restricted reserve accounts	(648)
	147,891
Adjusted operating income	147,891
Operating expenses	(155,464)
Adjusted net income	(7,573)
Other activity	
Deposits into replacement reserve account	(21,000)
Total other activity	(21,000)
Operating cash flow/surplus cash	\$ (28,573)

**Reconciliation to RHCP Form 181**

Total operating revenues	\$ 146,708
Interest income	1,831
Less state income	(9,573)
Less interest on reserves	(648)
Other difference	1
	1
Effective gross rent per RHCP Form 181	\$ 138,319

**Reconciliation to RHCP Form 180**

Total operating expenses	\$ 238,098
Less bad debt	(3,499)
Less depreciation	(82,634)
Other difference	2
	2
Total operating costs per RHCP Form 180	\$ 151,967

**Annual Report**

**Actual Operating Costs**

AMC 180a (Rev. Oct 2009) (This version is used for RHCP-O only)

**Rental Housing Construction Program -- Original**

**7. REPORT OF ACTUAL OPERATING COSTS**

Reporting Period: 7/1/2016 to 06/30/2017

Contract No: 80-RHC-002  
 Project Name: Adaptable Housing  
 Prepared by: Maria Gimutao  
 Date Prepared: 8/9/2017

Units/Sq. Ft. - Assisted: **35**  
 Units/Sq. Ft. - Total: **35**

Unit Months: **420**

ACCOUNT NAME	ACCOUNT CODES	UNIT EXPENSES						PROJECT TOTALS		
		Approved Assisted (A)	Actual Assisted	Approved Non-Assisted	Actual Non-Assisted	Proposed Commercial	Actual Commercial	Approved Total Expenses	Total Actual Expenses (B)	Project Variance (C)
<b>MANAGEMENT FEE: 6200/6300</b>										
1 Management Fee or Sponsor Overhead	6320	15,470	15,470	14,610	14,610	0	0	30,080	30,080	0
<b>ADMINISTRATIVE EXPENSES: 6200/6300</b>										
2 Advertising	6210	141	151	133	143	0	0	274	293	(19)
3 Apartment Resale Expense (Cooperatives)	6235	0	0	0	0	0	0	0	0	0
4 Other Renting Expenses	6250	56	251	53	237	0	0	109	488	(379)
5 Office Salaries	6310	11,590	349	10,946	329	0	0	22,536	678	21,858
6 Office Supplies	6311	1,208	296	1,141	280	0	0	2,349	576	1,773
7 Office or Model Apartment Rent	6312	0	0	0	0	0	0	0	0	0
8 Manager and Superintendent Salaries	6330	6,418	11,630	6,061	10,984	0	0	12,479	22,615	(10,136)
9 Manager's or Superintendent's Rent Free Unit	6331	0	0	0	0	0	0	0	0	0
10 Legal Expense - Project	6340	197	0	186	0	0	0	383	0	383
11 Audit Expense - Project	6350	334	3,600	315	3,400	0	0	649	7,000	(6,351)
12 Bookkeeping Fees/Accounting Services	6351	4,653	4,648	4,395	4,390	0	0	9,048	9,037	11
13 Telephone and Answering Service Expenses	6360	56	622	53	587	0	0	109	1,209	(1,100)
14 Bad Debt Expense	6370	0	0	0	0	0	0	0	0	0
15 Miscellaneous Administrative Expenses (specify)	6390	1,889	954	1,783	901	0	0	3,672	1,855	1,817
<b>16 TOTAL ADMINISTRATIVE EXPENSES</b>	<b>6200/6300T</b>	<b>26,542</b>	<b>22,500</b>	<b>25,066</b>	<b>21,250</b>	<b>0</b>	<b>0</b>	<b>51,608</b>	<b>43,751</b>	<b>7,857</b>
<b>UTILITIES EXPENSES: 6400</b>										
17 Fuel Oil/Coal	6420	0	0	0	0	0	0	0	0	0
18 Electricity	6450	744	1,859	702	1,756	0	0	1,446	3,615	(2,169)
19 Water	6451	4,712	3,428	4,450	3,237	0	0	9,162	6,665	2,497
20 Gas	6452	3,269	3,702	3,088	3,496	0	0	6,357	7,198	(841)
21 Sewer	6453	4,740	2,920	4,476	2,758	0	0	9,216	5,679	3,537
<b>22 TOTAL UTILITIES EXPENSES</b>	<b>6400T</b>	<b>13,465</b>	<b>11,909</b>	<b>12,716</b>	<b>11,247</b>	<b>0</b>	<b>0</b>	<b>26,181</b>	<b>23,156</b>	<b>3,025</b>
<b>OPERATING AND MAINTENANCE EXPENSES: 6500</b>										
23 Janitor and Cleaning Payroll	6510	0	0	0	0	0	0	0	0	0
24 Janitor and Cleaning Supplies	6515	0	0	0	0	0	0	0	0	0
25 Janitor and Cleaning Contracts	6517	3,566	1,727	3,368	1,631	0	0	6,934	3,358	3,576
26 Exterminating Payroll/Contract	6519	598	910	564	859	0	0	1,162	1,769	(607)
27 Exterminating Supplies	6520	0	0	0	0	0	0	0	0	0
28 Garbage and Trash Removal	6525	1,844	4,007	1,742	3,784	0	0	3,586	7,791	(4,205)
29 Security Payroll/Contract	6530	0	0	0	0	0	0	0	0	0
30 Grounds Payroll	6535	0	0	0	0	0	0	0	0	0
31 Grounds Supplies	6536	0	0	0	0	0	0	0	0	0
32 Grounds Contract	6537	2,795	6,249	2,639	5,901	0	0	5,434	12,150	(6,716)
33 Repairs Payroll	6540	3,643	869	3,440	821	0	0	7,083	1,691	5,392
34 Repairs Material	6541	8	(1)	7	(1)	0	0	15	(3)	18
35 Repairs Contract	6542	5,498	10,118	5,192	9,556	0	0	10,690	19,675	(8,985)
36 Elevator Maintenance/Contract	6545	0	0	0	0	0	0	0	0	0
37 Heating/Cooling Repairs and Maintenance	6546	0	0	0	0	0	0	0	0	0
38 Swimming Pool Maintenance/Contract	6547	0	0	0	0	0	0	0	0	0
39 Snow Removal	6548	0	0	0	0	0	0	0	0	0
40 Decorating/Payroll Contract	6560	0	0	0	0	0	0	0	0	0
41 Decorating Supplies	6561	0	0	0	0	0	0	0	0	0
42 Vehicle and Maint. Equipment Operation/Repairs	6570	160	2	152	2	0	0	312	5	307
43 Misc. Operating and Maintenance Expenses (specify)	6590	0	0	0	0	0	0	0	0	0
<b>44 TOTAL OPERATING &amp; MAINTENANCE EXPENSES</b>	<b>6500T</b>	<b>18,112</b>	<b>23,881</b>	<b>17,104</b>	<b>22,554</b>	<b>0</b>	<b>0</b>	<b>35,216</b>	<b>46,436</b>	<b>(11,220)</b>
<b>TAXES AND INSURANCE: 6700</b>										
45 Real Estate Taxes	6710	0	0	0	0	0	0	0	0	0
46 Payroll Taxes (Project's Share)	6711	0	0	0	0	0	0	0	0	0
47 Misc. Taxes, Licenses and Permits	6719	0	0	0	0	0	0	0	0	0
48 Property and Liability Insurance (Hazard)	6720	1,469	1,868	1,387	1,764	0	0	2,856	3,632	(776)
49 Fidelity Bond Insurance	6721	0	0	0	0	0	0	0	0	0
50 Worker's Compensation	6722	0	0	0	0	0	0	0	0	0
51 Health Insurance and Other Employee Benefits	6723	4,183	2,527	3,950	2,387	0	0	8,133	4,914	3,219
52 Other Insurance	6729	0	0	0	0	0	0	0	0	0
<b>53 TOTAL TAXES AND INSURANCE</b>	<b>6700T</b>	<b>5,652</b>	<b>4,395</b>	<b>5,337</b>	<b>4,151</b>	<b>0</b>	<b>0</b>	<b>10,989</b>	<b>8,545</b>	<b>2,444</b>
<b>ASSISTED LIVING/BOARD &amp; CARE EXPENSES: 6900</b>										
54 Food	6932	0	0	0	0	0	0	0	0	0
55 Recreation and Rehabilitation	6980	0	0	0	0	0	0	0	0	0
56 Rehabilitation Salaries	6983	0	0	0	0	0	0	0	0	0
57 Other Service Expenses	6990	0	0	0	0	0	0	0	0	0
<b>58 TOTAL ASSISTED LIVING EXPENSES</b>	<b>6900T</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>61 TOTAL OPERATING COSTS</b>		<b>79,240</b>	<b>78,155</b>	<b>74,834</b>	<b>73,813</b>	<b>0</b>	<b>0</b>	<b>154,074</b>	<b>151,967</b>	<b>2,107</b>



**Rental Housing Construction Program -- Original**  
**8. ACTUAL CASH FLOW ANALYSIS**

Reporting Period: 07/01/2016 to 06/30/2017

Contract No: 80-RHC-002  
 Project Name: Adaptable Housing  
 Prepared by: Maria Gimutao  
 Date Prepared: 8/9/2017

Units/Sq. Ft. - Assisted: 35  
 Units/Sq. Ft. - Total: 35  
 Unit Months: 420

ACCOUNT NAME	Account Codes	ASSISTED UNITS		NON-ASSISTED UNITS		COMMERCIAL		TOTAL PROJECT		PROJECT VARIANCE
		Approved Cashflow (A)	Actual Cashflow (B)	Approved Cashflow (C)	Actual Cashflow (D)	Proposed Cashflow (E)	Actual Cashflow (F)	Approved Cashflow (G)	Actual Cashflow (H)	Cashflow Variance (I)
<b>REVENUE ACCOUNTS/RENT REVENUE: 5100</b>										
1 Rent Revenue	5120	86,232	67,469	122,700	63,721	0	0	208,932	131,190	(77,742)
2 Tenant Assistance Payments	5121	0	0	0	0	0	0	0	0	0
3 Rent revenue - Stores and Commercial	5140	0	0	0	0	0	0	0	0	0
4 Garage and Parking Spaces	5170	0	0	0	0	0	0	0	0	0
5 Flexible Subsidy Revenue	5185	0	0	0	0	0	0	0	0	0
6 Miscellaneous Rent Revenue	5190	0	0	0	0	0	0	0	0	0
7 Excess Rent	5191	0	0	0	0	0	0	0	0	0
8 Rent Revenue/Insurance	5192	0	0	0	0	0	0	0	0	0
9 Special Claims Revenue	5193	0	0	0	0	0	0	0	0	0
10 Retained Excess Income	5194	0	0	0	0	0	0	0	0	0
<b>11 GROSS RENT REVENUE</b>	<b>5100T</b>	<b>86,232</b>	<b>67,469</b>	<b>122,700</b>	<b>63,721</b>	<b>0</b>	<b>0</b>	<b>208,932</b>	<b>131,190</b>	<b>(77,742)</b>
<i>Total Vacancies (HCD Use Only)</i>	<b>5200T</b>	<b>0</b>	<b>0</b>	<b>24,540</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>24,540</b>	<b>0</b>	<b>0</b>
<b>ASSISTED LIVING/BOARD &amp; CARE REVENUES: 5300</b>										
17 Food	5332	0	0	0	0	0	0	0	0	0
18 Recreation (Activities) and Rehabilitation	5380	0	0	0	0	0	0	0	0	0
19 Rehabilitation	5385	0	0	0	0	0	0	0	0	0
20 Other Service Revenue	5390	0	0	0	0	0	0	0	0	0
<i>Total Living Revenue</i>	<b>6300T</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>FINANCIAL REVENUE: 5400</b>										
21 Financial Revenue - Project Operations	5410	822	609	777	575	0	0	1,599	1,185	(414)
<i>Total Financial Revenue</i>	<b>5400T</b>	<b>822</b>	<b>609</b>	<b>777</b>	<b>575</b>	<b>0</b>	<b>0</b>	<b>1,599</b>	<b>1,185</b>	<b>(414)</b>
<b>OTHER REVENUE: 5900</b>										
22 Laundry and Vending Revenue	5910	1,484	2,414	1,402	2,280	0	0	2,886	4,695	1,809
23 NSF and Late Charges	5920	206	643	194	607	0	0	400	1,250	850
24 Damages and Cleaning Fees	5930	0	0	0	0	0	0	0	0	0
25 Forfeited Tenant Security Deposits	5940	0	0	0	0	0	0	0	0	0
26 Other Revenue	5990	0	0	0	0	0	0	0	0	0
<i>Total Other Revenue</i>	<b>5900T</b>	<b>1,690</b>	<b>3,057</b>	<b>1,596</b>	<b>2,888</b>	<b>0</b>	<b>0</b>	<b>3,286</b>	<b>5,945</b>	<b>2,659</b>
<b>27 EFFECTIVE GROSS RENT (EGR)</b>	<b>5152T</b>	<b>88,744</b>	<b>71,136</b>	<b>100,533</b>	<b>67,184</b>	<b>0</b>	<b>0</b>	<b>189,277</b>	<b>138,319</b>	<b>(50,958)</b>
<b>28 TOTAL OPERATING EXPENSES</b>	<b>6000T</b>	<b>81,617</b>	<b>78,155</b>	<b>77,079</b>	<b>73,813</b>	<b>0</b>	<b>0</b>	<b>158,696</b>	<b>151,967</b>	<b>6,729</b>
<b>29 NET OPERATING INCOME (NOI)</b>	<b>5000T</b>	<b>7,127</b>	<b>(7,019)</b>	<b>23,454</b>	<b>(6,629)</b>	<b>0</b>	<b>0</b>	<b>30,581</b>	<b>(13,648)</b>	<b>(44,229)</b>
<b>FINANCIAL EXPENSES: 6800</b>										
30 Non-Contingent Debt Service (specify lender)	6895									
1st Mortgage =		0	0	0	0	0	0	0	0	0
2nd Mortgage =		0	0	0	0	0	0	0	0	0
3rd Mortgage =		0	0	0	0	0	0	0	0	0
31 HCD Required Payments	6890	0	0	5,900	5,900	0	0	5,900	5,900	0
32 Lease Payment	6890	0	0	0	0	0	0	0	0	0
33 Miscellaneous Financial Expenses	6890	0	0	0	0	0	0	0	0	0
<i>Total Financial Expenses</i>	<b>6800T</b>	<b>0</b>	<b>0</b>	<b>5,900</b>	<b>5,900</b>	<b>0</b>	<b>0</b>	<b>5,900</b>	<b>5,900</b>	<b>0</b>
<b>FUNDED RESERVES:</b>										
34 Escrow Deposits	1310	0	0	0	0	0	0	0	0	0
35 Replacement Reserve-Deposit	1320	10,800	10,800	10,200	10,200	0	0	21,000	21,000	0
36 Operating Reserve-Deposit	1300	0	0	0	0	0	0	0	0	0
37 Other Reserves (specify)										
#1	1330	0	0	0	0	0	0	0	0	0
#2	1330	0	0	0	0	0	0	0	0	0
#3	1330	0	0	0	0	0	0	0	0	0
<i>Total Reserve Deposits</i>		<b>10,800</b>	<b>10,800</b>	<b>10,200</b>	<b>10,200</b>	<b>0</b>	<b>0</b>	<b>21,000</b>	<b>21,000</b>	<b>0</b>
<b>38 PROJECT CASH FLOW (CF)</b>		<b>(3,673)</b>	<b>(17,819)</b>	<b>7,354</b>	<b>(22,729)</b>	<b>0</b>	<b>0</b>	<b>3,681</b>	<b>(40,548)</b>	<b>(44,229)</b>
<b>ADDITIONAL REVENUE:</b>										
39 RHCP-O Annuity Fund Request (For Assisted Units Only)		3,673	3,673					3,673	3,673	(0)
40 Withdrawal from Operating Reserves		0	0	0	0	0	0	0	0	0
41 Borrower Contribution		0	0	0	0	0	0	0	0	0
42 Other (specify)		0	0	0	0	0	0	0	0	0
<i>Total Additional Revenue</i>		<b>3,673</b>	<b>3,673</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,673</b>	<b>3,673</b>	<b>(0)</b>
<b>USE OF CASH FLOW:</b>										
43 HCD Interest Payments		0	0	0	0	0	0	0	0	0
44 Asset Mgmt Fee (CHRP-R/SUHRP & HOME-pre-UMR Only)		0	0	0	0	0	0	0	0	0
45 Asset Mgmt Fee/Prtshp Costs (MHP/HOME under UMR)		0	0	0	0	0	0	0	0	0
46 Borrower Distributions		0	0	0	0	0	0	0	0	0
47 Residual Receipt Loan Payments		0	0	0	0	0	0	0	0	0
48 Other (specify)		0	0	0	0	0	0	0	0	0
<i>Total Use of Cash Flow</i>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Independent Auditor's 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*

To the Board of Commissioners  
San Diego Housing Commission

We have audited, in accordance with the 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 San Diego Housing Commission's ("SDHC's") Adaptable Housing Development Project No. 12-HLCP-0004 (the "Project"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Project's basic financial statements, and have issued our report thereon dated September 26, 2017.

#### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered SDHC'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SDHC's internal control. Accordingly, we do not express an opinion on the effectiveness of SDHC'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of SDHC'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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control, that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control 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 Project's financial statements are free of 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SDHC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Cohn Reznick LLP". The signature is written in a cursive, flowing style.

Sacramento, California  
September 26, 2017

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