

**Northern SDHC FHA LLC
HUD Project No.: 129-11053**

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

June 30, 2017

Northern SDHC FHA LLC
HUD Project No.: 129-11053

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**Northern SDHC FHA LLC
HUD Project No.: 129-11053**

June 30, 2017

Mortgagor's Certification

We hereby certify that we have examined the accompanying financial statements and supplementary data of Northern SDHC FHA LLC and, to the best of our knowledge and belief, the same are complete and accurate.

Sole Member

San Diego Housing Commission

Tracey McDermott Date
Vice President and Chief Financial Officer
Telephone Number: (619) 578-7737

Richard Gentry Date
Chief Executive Officer

**Northern SDHC FHA LLC
HUD Project No.: 129-11053**

June 30, 2017

Managing Agent's Certification

We hereby certify that we have examined the accompanying financial statements and supplementary data of Northern SDHC FHA LLC and, to the best of our knowledge and belief, the same are complete and accurate.

Managing Agent

San Diego Housing Commission

Richard Gentry
Chief Executive Officer

Date

Deborah N. Ruane
Executive Vice President &
Chief Strategy Officer

Managing Agent Taxpayer
Identification Number: 95-3390896

Independent Auditor's Report

To the Sole Member
Northern SDHC FHA LLC

Report on the Financial Statements

We have audited the accompanying financial statements of Northern SDHC FHA LLC, which comprise the balance sheet as of June 30, 2017, and the related statements of operations, member's equity (deficit) 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northern SDHC FHA LLC as of June 30, 2017, and the results of its operations 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

Adoption of New Accounting Principle

As discussed in Note 2 to the financial statements, in 2017 Northern SDHC FHC LLC, adopted a new accounting principle related to the presentation of debt issuance costs. Our report is not modified with respect to this matter.

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 20 to 32 is presented for purposes of additional analysis and is not a required part of the financial statements.

The accompanying supplementary information on pages 20 to 32 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information on pages 20 to 32 is fairly stated, in all material respects, in relation to the 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 27, 2017 on our consideration of Northern SDHC FHA LLC'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 Northern SDHC FHA LLC's internal control over financial reporting and compliance.

CohnReznick LLP

Sacramento, California
September 27, 2017

Taxpayer Identification Number:
22-1478099

Lead Auditor: Ahamadou Alainchar Bocar, CPA

Northern SDHC FHA LLC
HUD Project No.: 129-11053

Balance Sheet
June 30, 2017

Assets

Current assets	
Cash - operations	\$ 1,685,769
Tenant accounts receivable	21,467
Allowance for doubtful accounts	(874)
Accounts receivable - HUD	1,067
Prepaid expenses	<u>25,381</u>
Total current assets	<u>1,732,810</u>
Deposits held in trust - funded	
Tenant deposits	<u>97,383</u>
Restricted deposits and funded reserves	
Escrow deposits	61,619
Reserve for replacements	<u>784,177</u>
Total restricted deposits and funded reserves	<u>845,796</u>
Rental property	
Land	3,690,974
Buildings	<u>11,060,209</u>
	14,751,183
Less accumulated depreciation	<u>(2,299,859)</u>
Total rental property	<u>12,451,324</u>
Total assets	<u>\$ 15,127,313</u>

Northern SDHC FHA LLC
HUD Project No.: 129-11053

Balance Sheet
June 30, 2017

Liabilities and Member's Equity (Deficit)

Current liabilities	
Accounts payable - operations	\$ 1,375,161
Accounts payable - project improvement items	58,307
Accounts payable - entity	4,281,502
Accrued wages payable	5,517
Accrued interest payable - first mortgage	49,022
Mortgage payable - first mortgage (short-term)	317,016
Prepaid revenue	<u>22,458</u>
Total current liabilities	6,108,983
Deposits liability	
Tenant deposits held in trust (contra)	<u>97,383</u>
Long-term liabilities	
Mortgage payable - first mortgage, net	<u>14,953,339</u>
Total long-term liabilities	<u>14,953,339</u>
Total liabilities	<u>21,159,705</u>
Member's equity (deficit)	<u>(6,032,392)</u>
Total liabilities and member's equity (deficit)	<u><u>\$ 15,127,313</u></u>

Northern SDHC FHA LLC
HUD Project No.: 129-11053

Statement of Operations
Year Ended June 30, 2017

Rental revenue	
Rent revenue - gross potential	\$ 1,983,448
Tenant assistance payments	<u>834,452</u>
Total rental revenue	<u>2,817,900</u>
Vacancies	
Apartment	(13,651)
Rental concessions	<u>(16,083)</u>
Total vacancies	<u>(29,734)</u>
Net rental revenue	<u>2,788,166</u>
Financial revenue	
Financial revenue - project operations	1,005
Revenue from investments - replacement reserve	<u>290</u>
Total financial revenue	<u>1,295</u>
Other revenue	
Laundry and vending	42,537
Tenant charges	10,140
Miscellaneous revenue	<u>349,963</u>
Total other revenue	<u>402,640</u>
Total revenue	<u>3,192,101</u>

Northern SDHC FHA LLC
HUD Project No.: 129-11053

Statement of Operations
Year Ended June 30, 2017

Administrative expenses	
Other renting expenses	2,663
Office salaries	57,151
Office expenses	14,834
Management fee	141,023
Administrative rent free unit	20,257
Legal expense - project	3,149
Auditing expense	12,800
Bad debts	19,314
Miscellaneous administrative expenses	89,465
	<hr/>
Total administrative expenses	360,656
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Utilities expense	
Electricity	11,076
Water	102,897
Gas	23,893
Sewer	87,690
	<hr/>
Total utilities expense	225,556
	<hr/>
Operating and maintenance expenses	
Payroll	49,066
Supplies	23,299
Contracts	2,080,989
Garbage and trash removal	20,903
Security payroll/contract	990
Vehicle and maintenance equipment operation and repairs	367
	<hr/>
Total operating and maintenance expenses	2,175,614
	<hr/>

Northern SDHC FHA LLC
HUD Project No.: 129-11053

Statement of Operations
Year Ended June 30, 2017

Taxes and insurance	
Real estate taxes	2,387
Property and liability insurance	27,309
Workmen's compensation	5,029
Health insurance and other employee benefits	48,699
Miscellaneous taxes, licenses, permits and insurance	<u>6,800</u>
Total taxes and insurance	<u>90,224</u>
Financial expenses	
Interest on first mortgage payable	611,392
Mortgage insurance premium/service charge	<u>70,919</u>
Total financial expenses	<u>682,311</u>
Total cost of operations before depreciation and amortization	<u>3,534,361</u>
Income (loss) before depreciation and amortization	<u>(342,260)</u>
Depreciation and amortization	
Depreciation expense	<u>429,713</u>
Total depreciation and amortization	<u>429,713</u>
Total expenses	<u>3,964,074</u>
Net income (loss)	<u><u>\$ (771,973)</u></u>

Northern SDHC FHA LLC
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Statement of Member's Equity (Deficit)
Year Ended June 30, 2017

Member's equity (deficit), June 30, 2016	\$ (4,536,679)
Distributions	(1,823,851)
Contributions	1,100,111
Net income (loss)	<u>(771,973)</u>
Member's equity (deficit), June 30, 2017	<u>\$ (6,032,392)</u>

Northern SDHC FHA LLC
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Statement of Cash Flows
Year Ended June 30, 2017

Cash flows from operating activities	
Rental receipts	\$ 2,748,326
Interest receipts	1,295
Other operating receipts	<u>402,640</u>
Total receipts	<u>3,152,261</u>
Administrative expenses paid	(122,911)
Management fees paid	(141,023)
Utilities paid	(225,556)
Salaries and wages paid	(108,726)
Operating and maintenance paid	(1,016,706)
Real estate taxes paid	(2,387)
Property insurance paid	(27,309)
Miscellaneous taxes and insurance paid	(6,800)
Other operating expenses paid	(53,728)
Interest paid on first mortgage	(594,513)
Mortgage insurance premium paid	<u>(70,691)</u>
Total disbursements	<u>(2,370,350)</u>
Net cash provided by operating activities	<u>781,911</u>
Cash flows from investing activities	
Net withdrawals from mortgage escrows	835
Net withdrawals from reserve for replacements	45,809
Net purchases of fixed assets	<u>(2,680,984)</u>
Net cash used in investing activities	<u>(2,634,340)</u>
Cash flows from financing activities	
Mortgage principal payments - first mortgage	(305,337)
Distributions to sole member	(1,823,851)
Contributions from sole member	1,100,111
Entity/construction financing activities (include detail)	
Advance from sole member	<u>3,309,192</u>
Net cash provided by financing activities	<u>2,280,115</u>
Net increase in cash	427,686
Cash, beginning	<u>1,258,083</u>
Cash, end	<u><u>\$ 1,685,769</u></u>

Northern SDHC FHA LLC
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Statement of Cash Flows
Year Ended June 30, 2017

Reconciliation of net income (loss) to net cash provided by operating activities	
Net income (loss)	<u>\$ (771,973)</u>
Adjustments to reconcile net income (loss) to net cash provided by operating activities	
Depreciation	429,713
Amortization of debt issuance costs	17,835
Bad debts	19,314
Changes in asset and liability accounts	
(Increase) decrease in assets	
Tenant accounts receivable	(24,031)
Accounts receivable - other	(740)
Prepaid expenses	228
Tenant security deposits funded	(3,917)
Increase (decrease) in liabilities	
Accounts payable	1,108,852
Accrued liabilities	(1,519)
Accrued interest payable	(956)
Tenant security deposits held in trust	3,917
Prepaid revenue	<u>5,188</u>
Total adjustments	<u>1,553,884</u>
Net cash provided by operating activities	<u>\$ 781,911</u>
Significant noncash investing and financing activities	
Investment in rental property included in accounts payable - project improvement	<u>\$ 58,307</u>

Northern SDHC FHA LLC
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Notes to Financial Statements
June 30, 2017

Note 1 - Organization and nature of operations

Northern SDHC FHA LLC (the "Company") was formed as a limited liability company under the laws of the State of California on July 13, 2010 for the purpose of owning and operating a rental housing project under Section 207, pursuant to Section 223(f) of the National Housing Act as regulated by the U.S. Department of Housing and Urban Development ("HUD") and is subject to restrictions as to the operating policies, rental charges, operating expenditures and distributions to the sole member. The Company has executed a limited liability company operating agreement (the "operating agreement") dated August 20, 2010. The properties of the Company consist of 14 apartment complexes totaling 154 units and are located in San Diego, California (the "Projects"). The Projects are currently operating under the name of SDHC North Portfolio.

The Company is wholly owned by San Diego Housing Commission ("SDHC"). The Company is also a blended component unit of SDHC.

The Company will continue to operate until July 13, 2065, unless dissolved earlier in accordance with the operating agreement.

Cash distributions are limited by agreements between the Company and HUD to the extent of surplus cash as defined by HUD.

Note 2 - Summary of significant accounting policies

Basis of presentation

The financial statements have been prepared on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Accordingly, income is recognized as earned and expensed as incurred, regardless of the timing of payments.

Tenant accounts receivable

Tenant accounts receivable are reported net of an allowance for doubtful accounts. Management's estimate of the allowance is based on the historical collection experience and a review of the current status of tenants' accounts receivable. It is reasonably possible that management's estimate of the allowance will change. As of June 30, 2017, the allowance for doubtful accounts is \$874.

Rental property

Rental property is carried at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives by use of the straight-line method. The estimated useful lives of the assets are as follows:

Building and improvements	12 - 37 years
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Impairment of long-lived assets

The Company reviews its investment in rental property for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the property are less than its carrying amount, management compares the carrying amount of the property to its fair value in order to determine whether an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss has been recognized for the year ended June 30, 2017.

Northern SDHC FHA LLC
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Notes to Financial Statements
June 30, 2017

Rental revenue

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

Income taxes

The Company is a single member limited liability company and is a disregarded entity for federal income tax purposes and is not subject to income taxes. The Company's federal tax status as a pass-through entity is based on its legal status as a single member limited liability company. SDHC, the sole member of the Company, is a state agency which is exempt from filing any income tax returns. Accordingly, these financial statements do not reflect a provision for income taxes and the Company has no other tax positions which must be considered for disclosure.

Advertising costs

Advertising and marketing costs are expensed as incurred.

Use of estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets 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 period. Actual results could differ from those estimates.

Debt issuance costs

Debt issuance costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the mortgage loan payable to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and is computed using an imputed interest rate on the related loan.

Change in accounting principle

During the year ended June 30, 2017, the Company adopted the provisions of Accounting Standards Update 2015-03, simplifying the presentation of Debt Issuance Costs ("ASU 2015-03"), which modifies the presentation of debt issuance costs and the related amortization. The change in accounting under ASU 2015-03 improves the reporting of debt issuance costs by no longer reporting them as assets. It also improves the reporting of the related amortization by including it as a component of interest expense.

Note 3 - Restricted deposits and funded reserves

Escrow deposits

Under agreements with the mortgage lender and HUD, the Company is required to make monthly deposits to escrow accounts. Funds deposited are used to pay mortgage insurance premiums. As of June 30, 2017, the balance in the escrow deposits is \$61,619.

Reserve for replacements

The Company is required to make monthly deposits to a reserve for replacements account to fund future maintenance and replacement costs. Monthly payments of \$4,492 are required to be deposited with the mortgage lender. As of June 30, 2017, the balance in the reserve for replacements is \$784,177.

Northern SDHC FHA LLC
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Notes to Financial Statements
June 30, 2017

Note 4 - Mortgage payable

In August 2010, the Company entered into a mortgage agreement with PNC Bank, N.A., a national banking association, in the original amount of \$17,500,200. The note is secured by a deed of trust and insured by HUD. The note bears an annual interest rate of 3.76%. Principal and interest are paid in monthly installments of \$74,987 through maturity on September 1, 2045. As of June 30, 2017, the outstanding principal and accrued interest is \$15,645,201 and \$49,022, respectively.

Debt issuance costs, net of accumulated amortization, totaled \$374,846 as of June 30, 2017, and are related to the first mortgage. Debt issuance costs on the above note are being amortized using an imputed interest rate of 3.97%. Amortization of debt issuance costs is \$17,835 for the year ended June 30, 2017 and is included in interest on first mortgage payable on the statement of operations.

The liability of the Company under the mortgage note is limited to the underlying value of the real estate collateral plus other amounts deposited with the lender.

The mortgage qualifies for an interest rebate subsidy from the U.S. Treasury under the Build America Bonds Program ("BAB"). During the year ended June 30, 2017, the Company received BAB interest rebate of \$193,463, which is included in miscellaneous revenue on the statement of operations.

Aggregate annual maturities of the mortgage payable over each of the next five years and thereafter subsequent to June 30, 2017 are as follows:

2018	\$	317,016
2019		329,144
2020		341,735
2021		354,808
2022		368,381
Thereafter		<u>13,934,117</u>
Subtotal		15,645,201
Less unamortized debt issuance cost		<u>(374,846)</u>
Total	\$	<u><u>15,270,355</u></u>

Note 5 - Management fee

The Company has entered into an agreement with SDHC in connection with the management of the rental operations of the Projects. The property management fee is based on 5% of the effective gross income of the Projects, as defined. For the year ended June 30, 2017, management fees of \$141,023 were incurred and charged to operations.

Northern SDHC FHA LLC
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Notes to Financial Statements
June 30, 2017

Note 6 - Housing assistance payments

Certain tenants of the Projects are recipients of Housing Choice Vouchers awarded by SDHC under Section 8 of the National Housing Act. During the year ended June 30, 2017, the Company recognized housing assistance payments amounting to \$834,452.

Note 7 - Related party transactions

Accounts payable - entity on the balance sheet includes operating expenses of the Company which were paid by SDHC under an expense reimbursement agreement. As of June 30, 2017, \$61,720 is due.

Accounts payable - entity on the balance sheet includes development expenses of the Company which were paid by SDHC under an expense reimbursement agreement. As of June 30, 2017, \$4,219,782 is due.

Note 8 - Construction contracts

The Company entered into seven construction contracts with various unrelated contractors, in the aggregate amount of \$2,925,059, for the rehabilitation of the Projects. As of June 30, 2017, \$2,855,929 has been incurred and capitalized to the cost of the rental property. As of June 30, 2017, \$58,307 remains payable and is included in accounts payable - project improvement on the balance sheet.

Note 9 - Concentration of credit risk

The Company maintains its cash accounts with various financial institutions. At times, these balances may exceed the federal insurance limits; however, the Company has not experienced any losses with respect to its bank balances in excess of government provided insurance. Bank balances are fully insured and/or collateralized with securities held by the pledging financial institutions in SDHC's, the Company's sole member, name as discussed below.

Cash deposits are secured by pledging securities as collateral. Collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits are considered to be held in SDHC's name. The fair value of pledged securities must equal at least 110% of SDHC's cash deposits. California law also allows institutions to secure SDHC deposits by pledging first trust deed mortgage notes having a value of 150% of SDHC's total cash deposits. SDHC may waive collateral requirements for cash deposits that are fully insured by the Federal Deposit Insurance Corporation.

The Company believes that no significant concentration of credit risks exists with respect to these cash balances at June 30, 2017.

Note 10 - Current vulnerability due to certain concentrations

The Company's principal assets consist of 14 apartment complexes totaling 154 units. The Company's operations are concentrated in the multifamily real estate market. In addition, the Company operates in a heavily regulated environment. The operations of the Company are subject to the administrative directives, rules and regulations of federal agencies, including, but not limited to HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little

**Northern SDHC FHA LLC
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**Notes to Financial Statements
June 30, 2017**

notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

Note 11 - Subsequent events

Events that occur after the balance sheet date 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 balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date, require disclosure in the accompanying notes. Management evaluated the activity of the Company through September 27, 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 HUD

**Northern SDHC FHA LLC
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Supplementary Information

**Balance Sheet Data
June 30, 2017**

<u>Account No.</u>	<u>Assets</u>		
<u>Current assets</u>			
1120	Cash - operations		\$ 1,685,769
1130	Tenant accounts receivable	\$ 21,467	
1131	Allowance for doubtful accounts	(874)	
1130N	Net tenants accounts receivable		20,593
1135	Accounts receivable - HUD		1,067
1200	Prepaid expenses		<u>25,381</u>
1100T	Total current assets		1,732,810
<u>Deposits held in trust - funded</u>			
1191	Tenant deposits		97,383
<u>Restricted deposits and funded reserves</u>			
1310	Escrow deposits	61,619	
1320	Reserve for replacements	<u>784,177</u>	
1300T	Total deposits		845,796
<u>Rental property</u>			
1410	Land	3,690,974	
1420	Buildings	<u>11,060,209</u>	
1400T	Total fixed assets	14,751,183	
1495	Less accumulated depreciation	<u>(2,299,859)</u>	
1400N	Net fixed assets		<u>12,451,324</u>
1000T	Total assets		<u><u>\$ 15,127,313</u></u>

**Northern SDHC FHA LLC
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Supplementary Information

**Balance Sheet Data
June 30, 2017**

Liabilities and Member's Equity (Deficit)

<u>Account No.</u>			
<u>Current liabilities</u>			
2110	Accounts payable - operations		\$ 1,375,161
2112	Accounts payable - project improvement items		58,307
2113	Accounts payable - entity		4,281,502
2120	Accrued wages payable		5,517
2131	Accrued interest payable - first mortgage		49,022
2170	Mortgage payable - first mortgage (short-term)		317,016
2210	Prepaid revenue		<u>22,458</u>
2122T	Total current liabilities		6,108,983
<u>Deposits liability</u>			
2191	Tenant deposits held in trust (contra)		97,383
<u>Long-term liabilities</u>			
2320	Mortgage payable - first mortgage	<u>\$ 14,953,339</u>	
2300T	Total long-term liabilities		<u>14,953,339</u>
2000T	Total liabilities		21,159,705
3130	Member's equity (deficit)		<u>(6,032,392)</u>
2033T	Total liabilities and member's equity (deficit)		<u><u>\$ 15,127,313</u></u>

**Northern SDHC FHA LLC
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Supplementary Information

**Statement of Operations Data
Year Ended June 30, 2017**

<u>Account No.</u>			
Rental revenue			
5120	Rent revenue - gross potential	\$ 1,983,448	
5121	Tenant assistance payments	<u>834,452</u>	
5100T	Total rental revenue		\$ 2,817,900
Vacancies			
5220	Apartments	(13,651)	
5250	Rental concessions	<u>(16,083)</u>	
5200T	Total vacancies		<u>(29,734)</u>
5152N	Net rental revenue		2,788,166
Financial revenue			
5410	Financial revenue - project operations	1,005	
5440	Revenue from investments - replacement reserve	<u>290</u>	
5400T	Total financial revenue		1,295
Other revenue			
5910	Laundry and vending	42,537	
5920	Tenant charges	10,140	
5990	Miscellaneous revenue	<u>349,963</u>	
5900T	Total other revenue		<u>402,640</u>
5000T	Total revenue		<u>3,192,101</u>

**Northern SDHC FHA LLC
HUD Project No.: 129-11053**

Supplementary Information

**Statement of Operations Data
Year Ended June 30, 2017**

Account No.

Administrative expenses		
6250	Other renting expenses	2,663
6310	Office salaries	57,151
6311	Office expenses	14,834
6320	Management fee	141,023
6331	Administrative rent free unit	20,257
6340	Legal expense - project	3,149
6350	Auditing expense	12,800
6370	Bad debts	19,314
6390	Miscellaneous administrative expenses	<u>89,465</u>
6263T	Total administrative expenses	360,656
Utilities expense		
6450	Electricity	11,076
6451	Water	102,897
6452	Gas	23,893
6453	Sewer	<u>87,690</u>
6400T	Total utilities expense	225,556
Operating and maintenance expenses		
6510	Payroll	49,066
6515	Supplies	23,299
6520	Contracts	2,080,989
6525	Garbage and trash removal	20,903
6530	Security payroll/contract	990
6570	Vehicle and maintenance equipment operation and repairs	<u>367</u>
6500T	Total operating and maintenance expenses	2,175,614

**Northern SDHC FHA LLC
HUD Project No.: 129-11053**

Supplementary Information

**Statement of Operations Data
Year Ended June 30, 2017**

<u>Account No.</u>			
Taxes and insurance			
6710	Real estate taxes	2,387	
6720	Property and liability insurance	27,309	
6722	Workmen's compensation	5,029	
6723	Health insurance and other employee benefits	48,699	
6790	Miscellaneous taxes, licenses, permits and insurance	<u>6,800</u>	
6700T	Total taxes and insurance		90,224
Financial expenses			
6820	Interest on first mortgage payable	611,392	
6850	Mortgage insurance premium/service charge	<u>70,919</u>	
6800T	Total financial expenses		<u>682,311</u>
6000T	Total cost of operations before depreciation and amortization		<u>3,534,361</u>
5060T	Income (loss) before depreciation and amortization		<u>(342,260)</u>
Depreciation and amortization			
6600	Depreciation expense	<u>429,713</u>	
	Total depreciation and amortization		<u>429,713</u>
5060N	Operating income (loss)		<u>(771,973)</u>
	Total expenses		<u>3,964,074</u>
3250	Net income (loss)		<u>\$ (771,973)</u>

Northern SDHC FHA LLC
HUD Project No.: 129-11053

Supplementary Information

Statement of Operations Data
Year Ended June 30, 2017

<u>Account No.</u>		
S1000-010	Total first mortgage (or bond) principal payments required during the audit year (12 monthly payments). Applies to all direct loans and HUD-held and fully-insured first mortgages.	<u>\$ 305,337</u>
S1000-020	Total of 12 monthly deposits in the audit year made to the replacement reserve account, as required by the regulatory agreement, even if payments may be temporarily suspended or reduced.	<u>\$ 53,901</u>
S1000-030	Replacement reserve, or residual receipts and releases which are included as expense items on the statement of operations.	<u>\$ 58,163</u>
S1000-040	Project improvement reserve releases under the flexible subsidy program which are included as expense items on the statement of operations.	<u>\$ -</u>
S3100-120	Mortgage payable note detail (Section 236 only) Interest reduction payments from subsidy.	<u>\$ -</u>

Northern SDHC FHA LLC
HUD Project No.: 129-11053

Supplementary Information

Statement of Member's Equity (Deficit) Data
Year Ended June 30, 2017

<u>Account No.</u>		
S1100-010	Member's equity (deficit), June 30, 2016	\$ (4,536,679)
S1200-420	Distributions	(1,823,851)
S1200-430	Contributions	1,100,111
3250	Net income (loss)	<u>(771,973)</u>
3130	Member's equity (deficit), June 30, 2017	<u>\$ (6,032,392)</u>

**Northern SDHC FHA LLC
HUD Project No.: 129-11053**

Supplementary Information

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

<u>Account No.</u>		
	Cash flows from operating activities	
S1200-010	Rental receipts	\$ 2,748,326
S1200-020	Interest receipts	1,295
S1200-030	Other operating receipts	<u>402,640</u>
S1200-040	Total receipts	<u>3,152,261</u>
S1200-050	Administrative expenses paid	(122,911)
S1200-070	Management fees paid	(141,023)
S1200-090	Utilities paid	(225,556)
S1200-100	Salaries and wages paid	(108,726)
S1200-110	Operating and maintenance paid	(1,016,706)
S1200-120	Real estate taxes paid	(2,387)
S1200-140	Property insurance paid	(27,309)
S1200-150	Miscellaneous taxes and insurance paid	(6,800)
S1200-170	Other operating expenses paid	(53,728)
S1200-180	Interest paid on first mortgage	(594,513)
S1200-210	Mortgage insurance premium paid	<u>(70,691)</u>
S1200-230	Total disbursements	<u>(2,370,350)</u>
S1200-240	Net cash provided by operating activities	<u>781,911</u>
	Cash flows from investing activities	
S1200-245	Net withdrawals from mortgage escrows	835
S1200-250	Net withdrawals from reserve for replacements	45,809
S1200-330	Net purchases of fixed assets	<u>(2,680,984)</u>
S1200-350	Net cash used in investing activities	<u>(2,634,340)</u>
	Cash flows from financing activities	
S1200-360	Mortgage principal payments - first mortgage	(305,337)
S1200-420	Distributions to partners	(1,823,851)
S1200-430	Contributions by partners	1,100,111
S1200-455	Entity/construction financing activities (include detail)	
S1200-456	Advance from sole member	<u>\$ 3,309,192</u>
		<u>3,309,192</u>
S1200-460	Net cash provided by financing activities	<u>2,280,115</u>
S1200-470	Net increase in cash	427,686
S1200-480	Cash, beginning	<u>1,258,083</u>
S1200T	Cash, end	<u><u>\$ 1,685,769</u></u>

**Northern SDHC FHA LLC
HUD Project No.: 129-11053**

Supplementary Information

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

<u>Account No.</u>			
	Reconciliation of net income (loss) to net cash provided by operating activities		
3250	Net income (loss)	<u>\$</u>	<u>(771,973)</u>
	Adjustments to reconcile net income (loss) to net cash provided by operating activities		
6600	Depreciation		429,713
S1200-486	Amortization of debt issuance costs		17,835
	Changes in asset and liability accounts		
	(Increase) decrease in assets		
S1200-490	Tenant accounts receivable		(24,031)
S1200-500	Accounts receivable - other		(740)
S1200-520	Prepaid expenses		228
S1200-530	Tenant security deposits funded		(3,917)
	Increase (decrease) in liabilities		
S1200-540	Accounts payable		1,108,852
S1200-560	Accrued liabilities		(1,519)
S1200-570	Accrued interest payable		(956)
S1200-580	Tenant security deposits held in trust		3,917
S1200-590	Prepaid revenue		5,188
S1200-600	Other adjustments (include detail)		
S1200-601	Bad debts	<u>\$</u>	<u>19,314</u>
			<u>19,314</u>
	Total adjustments		<u>1,553,884</u>
S1200-610	Net cash provided by operating activities	<u>\$</u>	<u>781,911</u>
S1200-620	Comments		
	Investment in rental property included in accounts payable - project improvement	<u>\$</u>	<u>58,307</u>

Northern SDHC FHA LLC
HUD Project No.: 129-11053

Supplementary Information
Year Ended June 30, 2017

Reserve for Replacements

<u>Account No.</u>		
1320P	Balance at June 30, 2016	\$ 829,986
1320DT	Total monthly deposits	53,901
1320INT	Interest income	290
1320WT	Approved withdrawals	<u>(100,000)</u>
1320	Balance at June 30, 2017	<u><u>\$ 784,177</u></u>

**Northern SDHC FHA LLC
HUD Project No.: 129-11053**

**Supplementary Information
Period Ended December 31, 2016**

Mid-Year Computation of Surplus Cash

<u>Account No.</u>	<u>Part A - Compute Surplus Cash</u>	
S1400-020	Cash (Accounts 1120, 1170 and 1191)	\$ 1,100,266
S1400-030	Accounts receivable - HUD	-
		<hr/>
S1400-050	Total cash	1,100,266
		<hr/>
S1400-060	Accrued mortgage interest payable	49,504
S1400-070	Delinquent mortgage principal payments	-
S1400-080	Delinquent deposits to reserve for replacements	-
S1400-090	Accounts payable (due within 30 days)	25,045
S1400-100	Loans and notes payable (due within 30 days)	-
S1400-110	Deficient tax, insurance or MIP escrow deposits	-
S1400-120	Accrued expenses (not escrowed)	-
S1400-130	Prepaid revenue (Account 2210)	22,251
S1400-140	Tenant security deposits liability (Account 2191)	97,431
		<hr/>
S1400-180	Less total current obligations	194,231
		<hr/>
S1400-190	Surplus cash (deficiency)	<u>\$ 906,035</u>

Northern SDHC FHA LLC
HUD Project No.: 129-11053

Supplementary Information
Year Ended June 30, 2017

Computation of Surplus Cash

<u>Account No.</u>	<u>Part A - Compute Surplus Cash</u>		
S1300-010	Cash (Accounts 1120, 1170 and 1191)	\$	1,783,152
1135	Accounts receivable - HUD		1,067
S1300-030	Other (describe in detail)		
S1300-031	Replacement reserve draw receivable	<u>\$</u>	<u>536,555</u>
			<u>536,555</u>
S1300-040	Total cash		<u>2,320,774</u>
S1300-050	Accrued mortgage interest payable		49,022
S1300-060	Delinquent mortgage principal payments		-
S1300-070	Delinquent deposits to reserve for replacements		-
S1300-075	Accounts payable (due within 30 days)		1,375,161
S1300-080	Loans and notes payable (due within 30 days)		-
S1300-090	Deficient tax, insurance or MIP escrow deposits		-
S1300-100	Accrued expenses (not escrowed)		5,517
2210	Prepaid revenue (Account 2210)		22,458
2191	Tenant security deposits liability (Account 2191)		97,383
S1300-110	Other current obligations (describe in detail)		
S1300-120	Accounts payable - entity	<u>61,720</u>	<u>61,720</u>
S1300-140	Less total current obligations		<u>1,611,261</u>
S1300-150	Surplus cash (deficiency)		<u><u>\$</u> 709,513</u>

Changes in Fixed Asset Accounts

	<u>Assets</u>			
	<u>Balance</u> <u>06/30/16</u>	<u>Additions</u>	<u>Deletions</u>	
Land	\$ 3,690,974	\$ -		\$ 3,690,974
Buildings	<u>8,320,918</u>	<u>2,739,291</u>		<u>11,060,209</u>
	<u>\$ 12,011,892</u>	<u>\$ 2,739,291</u>	<u>\$ -</u>	<u>\$ 14,751,183</u>
Accumulated depreciation	<u>\$ 1,870,146</u>	<u>\$ 429,713</u>	<u>\$ -</u>	<u>\$ 2,299,859</u>
Total net book value				<u><u>\$ 12,451,324</u></u>

**Northern SDHC FHA LLC
HUD Project No.: 129-11053**

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

Fixed Asset Detail

Additions to Buildings Account

Item and quantity	Amount
Building improvements - project rehabilitation	\$ 2,739,291

Detail of Accounts - Statement of Operations

Miscellaneous Other Revenue (Account No. 5990)

Interest rebate - Build America Bonds	\$ 193,463
RDA grant revenue	156,500
	\$ 349,963

Miscellaneous Administrative Expenses (Account No. 6390)

Travel	\$ 68
Training	2,250
Business expense	967
Milage reimbursement	913
Parking fees and permits	234
Relocation expenses	85,033
	\$ 89,465

Other Information

Related party transactions detail:

Account No.	Entity name	Amount paid
S3100-210	Management fee paid to SDHC	\$ 141,023

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 Sole Member
Northern SDHC FHA LLC

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 Northern SDHC FHA LLC, which comprise the balance sheet as of June 30, 2017, and the related statements of operations, member's equity (deficit), and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 27, 2017, which includes an emphasis of matter paragraph related to the adoption of a new accounting principle as indicated at page 5.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Northern SDHC FHA LLC'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 Northern SDHC FHA LLC's internal control. Accordingly, we do not express an opinion on the effectiveness of Northern SDHC FHA LLC'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 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.

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 Northern SDHC FHA LLC'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 the entity'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 27, 2017

Independent Auditor's Report on Compliance for the Major HUD
Program and on Internal Control over Compliance Required by the
Consolidated Audit Guide for Audits of HUD Programs

To the Sole Member
Northern SDHC FHA LLC

Report on Compliance for the Major Program

We have audited Northern SDHC FHA LLC's compliance with the compliance requirements described in the Consolidated Audit Guide for Audits of HUD Programs (the "Guide") that could have a direct and material effect on the Northern SDHC FHA LLC's major U.S. Department of Housing and Urban Development ("HUD") program for the year ended June 30, 2017. Northern SDHC FHA LLC's major HUD program is Section 223(f) mortgage insurance program.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its HUD program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Northern SDHC FHA LLC's major HUD program based on our audit of the compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major HUD program occurred. An audit includes examining, on a test basis, evidence about Northern SDHC FHA LLC'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 major program. However, our audit does not provide a legal determination of Northern SDHC FHA LLC's compliance.

Opinion on the Major HUD Program

In our opinion, Northern SDHC FHA LLC complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major HUD program for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of Northern SDHC FHA LLC is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered Northern SDHC FHA LLC's internal control over compliance with the requirements that could have a direct and material effect on its major HUD program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major HUD program and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Northern SDHC FHA LLC'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 compliance requirement of a HUD program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement of a HUD program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a compliance requirement of a HUD program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the 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.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.



Sacramento, California
September 27, 2017

**Northern SDHC FHA LLC
HUD Project No.: 129-11053**

**Schedule of Findings and Questioned Costs
June 30, 2017**

Our audit disclosed no findings that are required to be reported herein under the HUD Consolidated Audit Guide.

**Northern SDHC FHA LLC
HUD Project No.: 129-11053**

**Schedule of the Status of Prior Audit Findings,
Questioned Costs and Recommendations
June 30, 2017**

1. Audit Report, dated September 27, 2016, for the year ended June 30, 2016, issued by CohnReznick LLP.
 - There are no open findings from the prior audit period.
2. There were no reports issued by HUD OIG or other federal agencies or contract administrators during the period covered by this audit.
3. There were no letters or reports issued by HUD management during the period covered by this audit.

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