

**Otay Villas Housing Development
Project No. 12-HLCP-0003
A Project of San Diego Housing Commission**

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

June 30, 2017

Otay Villas Housing Development
Project No. 12-HLCP-0003
A project of San Diego Housing Commission

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**Otay Villas Housing Development
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June 30, 2017

Certificate of Owner

I, as an officer of the San Diego Housing Commission, owner of Otay Villas Housing Development, hereby certify that I have examined the accompanying financial statements and supplementary information of Otay Villas 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



Tracey McDermott, Vice President and
Chief Financial Officer

Employer Identification
Number: 95-3390896

**Otay Villas Housing Development
Project No. 12-HLCP-0003
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 Otay Villas 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 Otay Villas Housing Development Project No. 12-HLCP-0003 (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 Otay Villas Housing Development Project No. 12-HLCP-0003 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

**Otay Villas Housing Development
Project No. 12-HLCP-0003
A project of San Diego Housing Commission**

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

Assets

Current assets	
Cash and cash equivalents	\$ 139,407
Tenants' accounts receivable, net	4,026
Accounts receivable - other	<u>1,496</u>
Total current assets	<u>144,929</u>
Other assets	
Restricted deposits and funded reserves	<u>958,844</u>
Total other assets	<u>958,844</u>
Capital assets	
Buildings and improvements	5,923,717
Accumulated depreciation	<u>(2,507,131)</u>
	3,416,586
Land	<u>1,087,727</u>
Total capital assets	<u>4,504,313</u>
Total assets	<u><u>\$ 5,608,086</u></u>

**Otay Villas Housing Development
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**Statement of Net Position
June 30, 2017**

Liabilities

Current liabilities	
Accounts payable - operations	\$ 27,888
Accrued expenses	5,695
Accrued interest payable - first mortgage, current	13,230
Prepaid rent	<u>6,247</u>
Total current liabilities	<u>53,060</u>
Deposits and prepaid liability	
Tenants' security deposits liability	<u>40,934</u>
Total deposits and prepaid liability	<u>40,934</u>
Long-term liabilities	
Mortgage payable - first mortgage	3,150,000
Accrued interest payable - first mortgage, net of current portion	<u>322,833</u>
Total long-term liabilities	<u>3,472,833</u>
Total liabilities	<u><u>\$ 3,566,827</u></u>

Net Position

Net investment in capital assets	
Restricted	\$ 1,354,313
Unrestricted	712,412
	<u>(25,466)</u>
Total net position	<u>2,041,259</u>
Total liabilities and net position	<u><u>\$ 5,608,086</u></u>

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

Operating revenue	
Rental income	\$ 401,134
Other operating income	<u>97,062</u>
Total operating revenue	<u>498,196</u>
Operating expenses	
Administrative	130,831
Utilities	101,975
Operating and maintenance	143,698
Taxes and insurance	45,795
Depreciation	<u>263,551</u>
Total operating expenses	<u>685,850</u>
Net operating loss	<u>(187,654)</u>
Nonoperating revenue (expense)	
Financial revenue - investments	4,556
Interest expense - first mortgage	<u>(94,500)</u>
Total nonoperating revenue (expense)	<u>(89,944)</u>
Change in net position before capital transactions	(277,598)
Contributions	<u>842,266</u>
Change in net position	564,668
Net position	
Beginning of year	<u>1,476,591</u>
End of year	<u><u>\$ 2,041,259</u></u>

See Notes to Financial Statements.

**Otay Villas Housing Development
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**Statement of Cash Flows
Year Ended June 30, 2017**

Cash flows from operating activities	
Cash received from tenants and operations	\$ 496,490
Less cash payments for operations and administration	
Administrative expenses paid	(38,322)
Management fee and sponsor overhead paid	(59,045)
Utilities paid	(101,969)
Salaries and wages paid	(82,930)
Operating and maintenance paid	(82,880)
Property insurance paid	(11,889)
Net tenant security deposits received (paid)	1,984
Other operating expenses paid	(33,906)
	<u>(408,957)</u>
Cash payments for operations	(408,957)
Net cash provided by operating activities	<u>87,533</u>
Cash flows from capital and related financing activities	
Contributions from owner	842,266
Acquisition and construction of capital assets	(856,439)
Interest paid	(13,230)
	<u>(27,403)</u>
Net cash used in capital and related financing activities	(27,403)
Cash flows from investing activities	
Net deposits to replacement reserve	(66,898)
Net deposits to operating reserve	(867)
Interest on investments	4,500
Net sales of investments	46,991
	<u>(16,274)</u>
Net cash used in investing activities	(16,274)
Net increase in cash and cash equivalents	43,856
Cash and cash equivalents, beginning	<u>95,551</u>
Cash and cash equivalents, end	<u><u>\$ 139,407</u></u>

**Otay Villas Housing Development
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**Statement of Cash Flows
Year Ended June 30, 2017**

Reconciliation of net operating loss to net cash provided by operating activities

Net operating loss	\$ (187,654)
Adjustments to reconcile net operating loss to net cash provided by operating activities	
Depreciation	263,551
Bad debt	(2,071)
Changes in	
Tenants' accounts receivable	2,846
Prepaid revenue	2,407
Accounts payable - operations	3,256
Accrued expenses	3,214
Tenants' security deposits liability	1,984
	<hr/>
Net cash provided by operating activities	<u>\$ 87,533</u>

Otay Villas Housing Development
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Notes to Financial Statements
June 30, 2017

Note 1 - The financial reporting entity

The San Diego Housing Commission ("SDHC")'s Otay Villas Housing Development Project consists of a 78-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 project's relative cash activities. As of June 30, 2017, the reconciled balance of SDHC general cash account is \$16,987,264 of which \$139,407 belongs to the Project.

Otay Villas Housing Development
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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 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 \$767.

Otay Villas Housing Development
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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 equipment	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, 2015, the Project converted to public housing and receives an operating subsidy from HUD. During the year ended June 30, 2017, the Project received \$83,293 of operating subsidy income which is included in other revenue in the statement of revenues, expenses and changes in net position. Due to the receipt of the HUD operating subsidy, the Project no longer receives annuity income from RHCP.

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 U.S. generally accepted accounting principles require 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.

**Otay Villas Housing Development
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**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 \$40,511.

Replacement reserve

The Project shall establish and fund a segregated replacement reserve account for the term of the regulatory agreement. The replacement reserve shall be funded in the initial amount of \$78,000 to provide for future major additions, repairs or replacements. The Project shall make annual deposits of \$46,800 per year. As of June 30, 2017 the replacement reserve balance is \$494,820. During the year ended June 30, 2017, the replacement reserve activity was as follows:

Balance as of June 30, 2016	\$	427,922
Deposits (\$600 x 78 units)		46,800
Project cash flow		18,199
Interest earned		1,899
Balance as of June 30, 2017	\$	494,820

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 \$217,592.

Other investments

The Project has other investments with a balance of \$205,921 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 ("LAIF"), the San Diego County Investment Pool ("SDCIP") 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

Mortgage payable to RHCP associated with acquisition of the Project is in the amount of \$3,150,000. 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 (\$13,230 per year). Interest expense was \$94,500 for the year ended June 30, 2017. As of June 30, 2017, outstanding principle and accrued interest is \$3,150,000 and \$336,063, respectively.

Otay Villas Housing Development
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Notes to Financial Statements
June 30, 2017

Note 5 - Management fee and sponsor overhead

The Project incurs management fees 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 management fees and overhead expenses in the amount of \$59,045.

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 78 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 RHCP

**Otay Villas Housing Development
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**Supplementary Information
Year Ended June 30, 2017**

Schedule of Operating Revenue

<u>Account No.</u>		
Rental revenue		
5120	Rent revenue - gross potential	<u>\$ 401,134</u>
5100T	Total rental revenue	<u>401,134</u>
5152N	Net rental revenue	<u>401,134</u>
Financial revenue		
5410	Financial revenue - project operations	1,790
5440	Revenue from investments - replacement reserve	1,899
5490	Revenue from investments - miscellaneous	<u>867</u>
5400T	Total financial revenue	<u>4,556</u>
Other revenue		
5910	Laundry and vending	11,425
5920	Tenant charges	2,344
5990	Miscellaneous revenue (if over \$2,500, detail is required)	<u>83,293</u>
5900T	Total other revenue	<u>97,062</u>
5000T	Total revenue	<u>502,752</u>

**Otay Villas Housing Development
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**Supplementary Information
Year Ended June 30, 2017**

Schedule of Operating Expenses

<u>Account No.</u>		
Administrative expenses		
6250	Other renting expenses	1,040
6310	Office salaries	28,456
6311	Office expenses	5,755
6320	Management fee	59,045
6331	Administrative rent free unit	6,959
6340	Legal expense - project	1,031
6350	Auditing expense	7,000
6351	Bookkeeping fees/accounting services	21,107
6370	Bad debts	(2,071)
6390	Miscellaneous administrative expenses	2,509
		<hr/>
6263T	Total administrative expenses	130,831
		<hr/>
Utilities expense		
6450	Electricity	13,864
6451	Water	45,641
6452	Gas	12,190
6453	Sewer	30,280
		<hr/>
6400T	Total utilities expense	101,975
		<hr/>
Operating and maintenance expenses		
6510	Payroll	31,404
6515	Supplies	3,721
6520	Contracts	70,205
6525	Garbage and trash removal	11,839
6530	Security payroll/contract	26,284
6570	Vehicle and maintenance equipment operation and repairs	245
		<hr/>
6500T	Total operating and maintenance expenses	143,698
		<hr/>

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

<u>Account No.</u>		
<u>Taxes and insurance</u>		
6720	Property and liability insurance	11,889
6722	Workmen's compensation	3,866
6723	Health insurance and other employee benefits	30,040
		<hr/>
6700T	Total taxes and insurance	45,795
		<hr/>
<u>Financial expenses</u>		
6820	Interest on first mortgage payable	94,500
		<hr/>
6800T	Total financial expenses	94,500
		<hr/>
6000T	Total cost of operations before depreciation and amortization	516,799
		<hr/>
5060T	Income (loss) before depreciation and amortization	(14,047)
		<hr/>
<u>Depreciation and amortization</u>		
6600	Depreciation expense	263,551
		<hr/>
	Total depreciation and amortization	263,551
		<hr/>
5060N	Operating income (loss)	(277,598)
		<hr/>
	Total expenses	780,350
		<hr/>
3250	Change in net assets	\$ (277,598)
		<hr/> <hr/>

**Otay Villas Housing Development
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**Supplementary Information
Year Ended June 30, 2017**

Detail of Accounts - Schedule of Activities

Revenue from Investments - Miscellaneous (Account No. 5490)

Interest earned- operating reserve	\$ 867
	\$ 867
	\$ 867

Miscellaneous Other Revenue (Account No. 5990)

HUD operating subsidy	\$ 83,293
	\$ 83,293
	\$ 83,293

Miscellaneous Administrative Expenses (Account No. 6390)

Travel	\$ 736
Professional consultant	348
Mileage reimbursement	95
Parking fees and permits	136
Training	1,186
Education and training	8
	\$ 2,509
	\$ 2,509

Cash on Hand and in Banks

Unrestricted cash operating accounts

Operating account	\$ 139,407
	\$ 139,407
	\$ 139,407

Restricted cash accounts

Tenant security deposits	\$ 40,511
Replacement reserve	494,820
Other reserves	217,592
Investments	205,921
	\$ 958,844
	\$ 958,844

Mortgage Impound Accounts

None.

**Otay Villas Housing Development
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**Supplementary Information
Year Ended June 30, 2017**

Reserves for Replacement and Operating Expenses

	<u>Replacement reserve</u>	<u>Operating reserve</u>
Balance as of June 30, 2016	\$ 427,922	\$ 216,725
Deposits (\$600 x 78 units)	46,800	-
Project cash flow	18,199	-
Interest earned	1,899	867
	<u>494,820</u>	<u>217,592</u>
Balance as of June 30, 2017	<u>\$ 494,820</u>	<u>\$ 217,592</u>

Property, Equipment and Improvements

Following are the details of property, equipment and improvements:

	<u>Balance 6/30/16</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/17</u>
Land	\$ 1,087,727	\$ -	\$ -	\$ 1,087,727
Buildings	5,067,278	856,439	-	5,923,717
	<u>\$ 6,155,005</u>	<u>\$ 856,439</u>	<u>\$ -</u>	<u>\$ 7,011,444</u>

Accounts Payable and Accrued Expenses

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

Current	\$ 20,482
31 to 60 days	7,331
61 to 90 days	75
	<u>27,888</u>
Total	<u>\$ 27,888</u>

Gross Potential Rents

Gross potential rents includes the following:

Tenant rental payments	\$ 396,246
Tenant assistance payments	-
Rent free units	6,959
Vacancy loss and rent concessions	-
Bad debt	(2,071)
	<u>401,134</u>
Total gross potential rents	<u>\$ 401,134</u>

**Otay Villas Housing Development
Project No. 12-HLCP-0003
A project of San Diego Housing Commission**

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

Management Fee

The management fee and sponsor overhead authorized by RHCP totals \$59,045.

Operating Cash Flow/Surplus Cash Computation

Operating income	
Total income	\$ 502,752
Interest earned on restricted reserve accounts	(2,766)
	<hr/>
Adjusted operating income	499,986
Operating expenses	(422,299)
	<hr/>
Adjusted net income	77,687
Other activity	
Deposits into replacement reserve account	(46,800)
	<hr/>
Total other activity	(46,800)
	<hr/>
Operating cash flow/surplus cash	<u>\$ 30,887</u>

Reconciliation to RHCP Form 181

Total operating revenues	\$ 498,196
Interest income	4,556
Less interest on reserves	(2,766)
Other difference	(1)
	<hr/>
Effective gross rent per RHCP Form 181	<u>\$ 499,985</u>

Reconciliation to RHCP Form 180

Total operating expenses	\$ 685,850
Add back bad debt recovery	2,071
Less depreciation	(263,551)
Other difference	(2,614)
	<hr/>
Total operating costs per RHCP Form 180	<u>\$ 421,756</u>

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-026
 Project Name: Otay Villas
 Prepared by: Maria Gimutao
 Date Prepared: 8/9/2017

Units/Sq. Ft. - Assisted: **78**
 Units/Sq. Ft. - Total: **78**

Unit Months: **936**

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)
MANAGEMENT FEE: 6200/6300										
1 Management Fee or Sponsor Overhead	6320	18,168	18,168	40,877	40,877	0	0	59,045	59,045	0
ADMINISTRATIVE EXPENSES: 6200/6300										
2 Advertising	6210	504	0	1,135	0	0	0	1,639	0	1,639
3 Apartment Resale Expense (Cooperatives)	6235	0	0	0	0	0	0	0	0	0
4 Other Renting Expenses	6250	67	185	151	416	0	0	218	601	(383)
5 Office Salaries	6310	15,003	3,877	33,754	8,724	0	0	48,757	12,601	36,156
6 Office Supplies	6311	1,513	336	3,404	755	0	0	4,917	1,091	3,826
7 Office or Model Apartment Rent	6312	0	0	0	0	0	0	0	0	0
8 Manager and Superintendent Salaries	6330	7,294	5,934	16,411	13,352	0	0	23,705	19,286	4,419
9 Manager's or Superintendent's Rent Free Unit	6331	4,686	2,141	10,542	4,818	0	0	15,228	6,959	8,269
10 Legal Expense - Project	6340	252	0	568	0	0	0	820	0	820
11 Audit Expense - Project	6350	445	2,154	1,001	4,846	0	0	1,446	7,000	(5,554)
12 Bookkeeping Fees/Accounting Services	6351	3,362	6,494	7,564	14,613	0	0	10,926	21,107	(10,181)
13 Telephone and Answering Service Expenses	6360	303	1,386	681	3,118	0	0	984	4,504	(3,520)
14 Bad Debt Expense	6370	0	0	0	0	0	0	0	0	0
15 Miscellaneous Administrative Expenses (specify)	6390	2,152	1,215	4,841	2,734	0	0	6,993	3,949	3,044
16 TOTAL ADMINISTRATIVE EXPENSES	6200/6300T	35,580	23,722	80,053	53,375	0	0	115,633	77,097	38,536
UTILITIES EXPENSES: 6400										
17 Fuel Oil/Coal	6420	0	0	0	0	0	0	0	0	0
18 Electricity	6450	3,966	4,266	8,924	9,598	0	0	12,890	13,863	(973)
19 Water	6451	11,520	14,043	25,920	31,597	0	0	37,440	45,641	(8,201)
20 Gas	6452	3,837	3,751	8,633	8,439	0	0	12,470	12,190	280
21 Sewer	6453	7,574	9,317	17,040	20,963	0	0	24,614	30,280	(5,666)
22 TOTAL UTILITIES EXPENSES	6400T	26,897	31,376	60,517	70,597	0	0	87,414	101,973	(14,559)
OPERATING AND MAINTENANCE EXPENSES: 6500										
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	2,356	2,472	5,302	5,561	0	0	7,658	8,033	(375)
26 Exterminating Payroll/Contract	6519	1,730	399	3,892	897	0	0	5,622	1,295	4,327
27 Exterminating Supplies	6520	0	0	0	0	0	0	0	0	0
28 Garbage and Trash Removal	6525	3,600	4,356	8,101	9,801	0	0	11,701	14,157	(2,456)
29 Security Payroll/Contract	6530	6,524	8,087	14,679	18,196	0	0	21,203	26,284	(5,081)
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	3,390	11,509	7,627	25,895	0	0	11,017	37,404	(26,387)
33 Repairs Payroll	6540	8,082	11,874	18,184	26,717	0	0	26,266	38,592	(12,326)
34 Repairs Material	6541	976	976	2,197	2,197	0	0	3,173	3,173	0
35 Repairs Contract	6542	6,219	5,174	13,991	11,642	0	0	20,210	16,816	3,394
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	3,631	488	8,169	1,099	0	0	11,800	1,587	10,213
41 Decorating Supplies	6561	0	0	0	0	0	0	0	0	0
42 Vehicle and Maint. Equipment Operation/Repairs	6570	294	344	662	775	0	0	956	1,119	(163)
43 Misc. Operating and Maintenance Expenses (specify)	6590	0	0	0	0	0	0	0	0	0
44 TOTAL OPERATING & MAINTENANCE EXPENSES	6500T	36,803	45,680	82,803	102,780	0	0	119,606	148,461	(28,855)
TAXES AND INSURANCE: 6700										
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	1,623	3,659	3,650	8,232	0	0	5,273	11,890	(6,617)
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	6,924	7,166	15,577	16,123	0	0	22,501	23,289	(788)
52 Other Insurance	6729	0	0	0	0	0	0	0	0	0
53 TOTAL TAXES AND INSURANCE	6700T	8,546	10,824	19,228	24,355	0	0	27,774	35,180	(7,406)
ASSISTED LIVING/BOARD & CARE EXPENSES: 6900										
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
58 TOTAL ASSISTED LIVING EXPENSES	6900T	0	0	0	0	0	0	0	0	0
61 TOTAL OPERATING COSTS		125,995	129,771	283,477	291,985	0	0	409,472	421,756	(12,284)

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

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

Contract No: **80-RHC-026**
 Project Name: **Otay Villas**
 Prepared by: **Maria Gimutao**
 Date Prepared: **8/9/2017**

Units/Sq. Ft. - Assisted: **78**
 Units/Sq. Ft. - Total: **78**
 Unit Months: **936**

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)
REVENUE ACCOUNTS/RENT REVENUE: 5100										
1 Rent Revenue	5120	128,304	123,426	302,700	277,708	0	0	431,004	401,134	(29,870)
2 Tenant Assistance Payments	5121	36,706	25,629	82,584	57,664	0	0	119,290	83,293	(35,997)
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
11 GROSS RENT REVENUE	5100T	165,010	149,054	385,284	335,372	0	0	550,294	484,427	(65,867)
<i>Total Vacancies (HCD Use Only)</i>	5200T	0	0	0	0	0	0	0	0	0
ASSISTED LIVING/BOARD & CARE REVENUES: 5300										
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>	6300T	0	0	0	0	0	0	0	0	0
FINANCIAL REVENUE: 5400										
21 Financial Revenue - Project Operations	5410	792	551	1,783	1,239	0	0	2,575	1,790	(785)
<i>Total Financial Revenue</i>	5400T	792	551	1,783	1,239	0	0	2,575	1,790	(785)
OTHER REVENUE: 5900										
22 Laundry and Vending Revenue	5910	3,044	3,515	6,848	7,910	0	0	9,892	11,425	1,533
23 NSF and Late Charges	5920	1,277	721	2,873	1,623	0	0	4,150	2,344	(1,806)
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>	5900T	4,321	4,237	9,721	9,532	0	0	14,042	13,769	(273)
27 EFFECTIVE GROSS RENT (EGR)	5152T	170,123	153,842	396,788	346,144	0	0	566,911	499,985	(66,926)
28 TOTAL OPERATING EXPENSES	6000T	129,774	129,771	291,982	291,985	0	0	421,756	421,756	0
29 NET OPERATING INCOME (NOI)	5000T	40,349	24,071	104,806	54,159	0	0	145,155	78,229	(66,926)
FINANCIAL EXPENSES: 6800										
30 Non-Contingent Debt Service (specify lender)	6895	0	0	0	0	0	0	0	0	0
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	13,230	13,230	0	0	13,230	13,230	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>	6800T	0	0	13,230	13,230	0	0	13,230	13,230	0
FUNDED RESERVES:										
34 Escrow Deposits	1310	0	0	0	0	0	0	0	0	0
35 Replacement Reserve-Deposit	1320	14,400	14,400	32,400	32,400	0	0	46,800	46,800	0
36 Operating Reserve-Deposit	1300	0	0	0	0	0	0	0	0	0
37 Other Reserves (specify)		0	0	0	0	0	0	0	0	0
#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>		14,400	14,400	32,400	32,400	0	0	46,800	46,800	0
38 PROJECT CASH FLOW (CF)		25,949	9,671	59,176	8,529	0	0	85,125	18,199	(66,926)
ADDITIONAL REVENUE:										
39 RHCP-O Annuity Fund Request (For Assisted Units Only)		0	0	0	0	0	0	0	0	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>		0	0	0	0	0	0	0	0	0
USE OF CASH FLOW:										
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>		0	0	0	0	0	0	0	0	0

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") Otay Villas Housing Development Project No. 12-HLCP-0003 (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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