



## REPORT

**DATE ISSUED:** November 23, 2016

**REPORT NO:** HCR16-099

**ATTENTION:** Chair and Members of the San Diego Housing Commission  
For the Agenda of December 2, 2016

**SUBJECT:** Fiscal Year 2016 (July 1, 2015 – June 30, 2016) Comprehensive Annual Financial Report (CAFR) and Single Audit Reports

**COUNCIL DISTRICT:** Citywide

### **SUMMARY**

Accept the Fiscal Year 2016 (July 1, 2015 – June 30, 2016) Comprehensive Annual Financial Report (CAFR) and Single Audit Reports, specified in the list of attachments on page 3 of this report, as prepared by CohnReznick LLP, licensed certified public accountants.

### **COMMITTEE RECOMMENDATION**

That the San Diego Housing Commission (Housing Commission) accept and approve the Fiscal Year (FY) 2016 (July 1, 2015 – June 30, 2016) Comprehensive Annual Financial Report (CAFR) and Single Audit Reports prepared by CohnReznick LLP, an independent audit firm.

### **SUMMARY**

In December 2013, following a formal Request For Proposal process, the Housing Commission awarded a contract to CohnReznick LLP to conduct various financial audits of the Housing Commission with options for annual renewals through FY 2018 (July 1, 2017 – June 30, 2018).

The Housing Commission Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America presented in the CAFR (Attachment 1). This includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

CohnReznick, LLP is responsible for expressing an opinion on the financial statements based on their audit. In their opinion, the financial statements present fairly, in all material respects, the financial position of the Housing Commission as of June 30, 2016.

The Housing Commission Management is also responsible for compliance with each Federal program and for internal controls over compliance required by the Office of Management and Budget Compliance Supplement (Attachment 2).

CohnReznick, LLP is responsible for expressing an opinion on compliance for each of the Housing Commission's major Federal programs based on their audit of the types of compliance requirements identified. In their opinion, the Housing Commission complied, in all material respects, with the types of compliance requirements identified that could have a direct and material effect on each of its major Federal programs for the Fiscal Year that ended on June 30, 2016.

November 23, 2016

Fiscal Year 2016 (July 1, 2015 – June 30, 2016) Comprehensive Annual Financial Report (CAFR) and Single Audit Reports

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The Report to the Audit Committee of the Housing Commission Board of Commissioners (Attachment 3) provides required information from CohnReznick relating to the audits.

### **INFORMATIONAL REPORTS PROVIDED**

Certain projects require Special Purpose Financial Statements with Supplementary Information and Independent Auditor's Report. The Housing Commission projects subject to this requirement are the Otay Villas Housing Development (Attachment 4) and Scattered Sites Housing Development (Attachment 5). For both projects, the opinion of the auditors was that the statement of project operations presents fairly, in all material respects, the operation of the project for the Fiscal Year that ended on June 30, 2016, in accordance with accounting principles generally accepted in the United States of America.

The Housing Commission has three projects regulated by the U.S. Department of Housing and Urban Development (HUD) that have Federal Housing Administration (FHA) insured loans under Section 233(f) that require individual Financial Statements with Supplementary Information and Independent Auditor's Report. These projects are Northern SDHC FHA LLC (Attachment 6), Southern SDHC FHA LLC (Attachment 7) and Central SDHC FHA LLC (Attachment 8). The determination for the requirement of separate reporting was made in September 2013. CohnReznick, LLP completed the reports for FY 2016. For each project, the opinion of the auditors was that the statements of projects were presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. In addition, the Housing Commission complied, in all material respects, with HUD program and internal control requirements that could have a direct and material effect on each of the FHA Federal Programs.

### **CONCLUSION**

The audit reports are in compliance with applicable laws and the scope of work contained in the contract between the Housing Commission and CohnReznick, LLP. Housing Commission staff wishes to extend their appreciation to CohnReznick, LLP for the professional manner in which this audit was performed.

### **FISCAL CONSIDERATIONS**

The proposed action has no fiscal impact.

### **PREVIOUS COUNCIL and/or COMMITTEE ACTION**

On November 7, 2016, Housing Commission staff and the Auditors presented the Fiscal Year 2016 Comprehensive Annual Financial Report and attached financial reports to the Audit Committee, the Executive Vice President & Chief Of Staff, and the Housing Commission's General Counsel.

### **ENVIRONMENTAL REVIEW**

This activity is not a project as defined by the California Environmental Quality Act (CEQA) Section 21065 and State CEQA Guidelines Section 15378(b)(5), as it is an administrative activity of government that will not result in direct or indirect physical changes in the environment. The determination that this activity is not subject to CEQA, pursuant to Section 15060(c)(3), is not appealable and a Notice of Right to Appeal the Environmental Determination (NORA) is not required. This activity is exempt from the National Environmental Policy Act (NEPA) pursuant to Section 58.34(a)(2) and (3) of Title 24 of the Code of Federal Regulations.

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Fiscal Year 2016 (July 1, 2015 – June 30, 2016) Comprehensive Annual Financial Report (CAFR) and Single Audit Reports

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Respectfully submitted,

By: *Roberta Spoon*  
Audit Committee

By: *Ben Moraga*  
Audit Committee

Attachments: 1) FY16 Comprehensive Annual Financial Report (CAFR)  
2) FY16 Single Audit Reports  
3) FY16 Report to the Audit Committee of the Board of Commissioners  
4) FY16 Independent Auditors' Report on the Otay Villas Housing Development  
5) FY16 Independent Auditors' Report on the Scattered Sites Housing Development  
6) FY16 Northern SDHC FHA LLC Financial Statements  
7) FY16 Southern SDHC FHA LLC Financial Statements  
8) FY16 Central SDHC FHA LLC Financial Statements

Hard copies are available for review during business hours at the security information desk in the main lobby and at the fifth floor reception desk of the San Diego Housing Commission offices at 1122 Broadway, San Diego, CA 92101 and at the Office of the San Diego City Clerk, 202 C Street, San Diego, CA 92101. You may also review complete docket materials in the "Public Meetings" section of the San Diego Housing Commission website at [www.sdhc.org](http://www.sdhc.org)





SAN DIEGO  
HOUSING  
COMMISSION

ATTACHMENT 1

# San Diego Housing Commission Comprehensive Annual Financial Report

A Component Unit of the City of San Diego  
For the fiscal year ended June 30, 2016

San Diego Housing Commission  
1122 Broadway, Suite 300  
San Diego, CA 92101  
[www.sdhc.org](http://www.sdhc.org)



**San Diego Housing Commission**

**A Component Unit of the  
City of San Diego, California**

**Comprehensive Annual Financial Report**

**For the Year Ended  
June 30, 2016**

**Prepared by:  
Financial Services Department**

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SAN DIEGO  
HOUSING  
COMMISSION

# Introductory Section



## *We're About People*

Established in 1979, the San Diego Housing Commission (SDHC) is an award-winning public agency that serves the city of San Diego in a variety of roles. Those roles include as a provider of Federal rental assistance to more than 15,000 households, a partner in addressing homelessness, and an affordable housing developer.





November 9, 2016

Mayor Kevin Faulconer,  
Council President Sherri Lightner,  
Members of the San Diego City Council,  
San Diego Housing Commission (SDHC) Chairman of the Board Gary Gramling,  
Members of the SDHC Board of Commissioners,  
Citizens of the City of San Diego, California, and additional interested parties

California State law requires that all general purpose local governments publish, within six months of the close of each fiscal year, a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. As a component unit of the City of San Diego, and pursuant to the above stated requirement, we hereby issue the comprehensive annual financial report (CAFR) of the San Diego Housing Commission (SDHC) for the fiscal year that ended on June 30, 2016.

This report consists of SDHC management's representations concerning SDHC's finances. Consequently, SDHC management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, SDHC management has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of SDHC's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, SDHC's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements. As SDHC management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

SDHC's financial statements have been audited by CohnReznick LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that SDHC's financial statements for the fiscal year that ended on June 30, 2016, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditors concluded, based upon their audit, that there was a reasonable basis for rendering an unmodified opinion that SDHC's financial statements for the fiscal year that ended on June 30, 2016, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of SDHC's financial statements was part of a broader, federally mandated "Single Audit" designed to meet the special needs of Federal grantor agencies. The standards governing Single Audit engagements require the independent

auditors to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of Federal awards. These reports are available in SDHC's separately issued Single Audit Report.

The CAFR includes the U.S. Department of Housing and Urban Development (HUD)-required Financial Data Schedule (FDS), created to standardize financial information reported by Public Housing Authorities (PHAs). The HUD Real Estate Assessment Center (REAC) requires that PHA accounting information be reported in accordance with GAAP, using either governmental or enterprise fund accounting. REAC analyzes the FDS to assess the financial condition, viability, and effectiveness of overall resource management of PHAs compared to industry peers. The FDS discloses Federal, State and locally funded activities reported to HUD. These activities are the basis of SDHC's enterprise fund program schedules, which are combined in the basic financial statements.

Established in 1979, SDHC is an award-winning public housing agency dedicated to preserving and increasing affordable housing within the City of San Diego. We provide a variety of award-winning affordable housing programs and services that stimulate the local economy, revitalize neighborhoods, and impact the lives of low-income and homeless San Diegans. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to SDHC for its CAFR for the fiscal year that ended on June 30, 2015. This was the eighth consecutive year that SDHC has achieved this prestigious award for its publication of an easily readable and efficiently organized CAFR. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The GFOA has also given an award for Outstanding Achievement in Popular Annual Financial Reporting to SDHC for its Popular Annual Financial Report for fiscal year 2015. This was the sixth consecutive year that SDHC has received this prestigious award.

### **Governing Body and Strategic Guidance**

SDHC is governed by the San Diego City Council, sitting as the Housing Authority of the City of San Diego (Housing Authority).

SDHC President & CEO Richard C. Gentry is the Executive Director of the Housing Authority.

The Housing Authority has final authority over SDHC's budget and major policy decisions. Housing Authority approval is required for amending the annual budget for amounts in excess of \$500,000.

A seven-member Board of Commissioners oversees SDHC's operations and makes recommendations to the Housing Authority.

The Mayor appoints Commissioners, who are confirmed by the San Diego City Council.

The Board reviews proposed changes to housing policy, property acquisitions and other financial commitments. The Board offers policy guidance to SDHC staff through its communications with the agency's President & CEO.

### **SDHC Mission**

Provide affordable, safe and quality homes for low- and moderate-income families and individuals in the City of San Diego and to provide opportunities to improve the quality of life for the families that SDHC serves.

### **SDHC Strategic Plan**

SDHC created a two-year Strategic Plan, adopted on January 17, 2014, intended to provide SDHC with a framework to identify how it can have the greatest possible impact with limited financial resources in the years ahead.

On September 9, 2016, the Board approved the 2016-2020 Strategic Plan to build upon the following accomplishments of SDHC's 2014-2016 Strategic Plan.

SDHC's 2014-2016 Strategic Plan identified three major Goals:

- A. Create and Preserve Quality Affordable Housing
- B. Provide Housing Choice Voucher Families with Opportunities for Them to Become More Financially Self-Reliant
- C. Foster a Culture of Excellence and Innovation

### **SDHC Strategic Plan Accomplishments:**

#### **A. Creating and Preserving Affordable Housing:**

#### **HOUSING FIRST - SAN DIEGO**

HOUSING FIRST - SAN DIEGO, SDHC's three-year Homelessness Action Plan (2014-17) to create additional affordable housing with supportive services, will impact the lives of as many as 1,500 homeless San Diegans.

#### **HOUSING FIRST - SAN DIEGO:**

- Award up to \$30 million over the next three years to create Permanent Supportive Housing that will remain affordable for 55 years;
- Commit up to 1,500 Federal rental assistance vouchers to provide housing to homeless individuals and families;
- Renovate the historical Hotel Churchill to create 72 affordable studios for homeless veterans and former foster youth;

- Invest up to \$15 million from the Federal “Moving to Work” rental assistance program to acquire a property that will set aside 20 percent of its units for permanent supportive housing for homeless San Diegans; and
- Dedicate 25 of SDHC’s own affordable units to temporarily provide homes for homeless individuals and families. SDHC is one of the first public housing agencies in the nation to commit affordable rental housing that it owns for this purpose.

## **HOUSING FIRST - SAN DIEGO - New Initiatives:**

On March 1, 2016, the San Diego City Council unanimously approved funding for a new “HOUSING FIRST - SAN DIEGO” initiative, SDHC’s The 1,000 Homeless Veterans Initiative, a collaborative effort with the City of San Diego to provide a path off the streets for up to a thousand homeless military Veterans in the city of San Diego within one year - March 2017.

The initiative will invest close to \$12.5 million over two years in Federal, City, and SDHC resources to provide housing opportunities for homeless Veterans in the city who are living on the streets or in shelters.

The 1,000 Homeless Veterans Initiative will assist:

- 300 chronically homeless Veterans who received an honorable discharge, have a disabling condition, need supportive services and qualify for the HUD Veterans Affairs Supportive Housing (VASH) voucher program;
- 100 Veterans who are eligible for the HUD Sponsor-Based Housing Voucher program, which is administered by SDHC. Veterans will receive supportive services, such as case management; and
- Up to 600 additional homeless Veterans who will be provided with housing opportunities through the Rapid Re-housing Assistance program. Homeless Veterans need not have an honorable discharge to be eligible for Rapid Re-housing financial rental assistance.

In addition to The 1,000 Homeless Veterans Initiatives, new initiatives for the second year of HOUSING FIRST - SAN DIEGO, which were announced on December 3, 2015, include:

### **Guardian Scholars Program at San Diego State University (SDSU)**

Rental assistance for up to 100 SDSU students who have been homeless or at risk of homelessness. The HOUSING FIRST - SAN DIEGO partnership will provide approximately \$1 million to the Guardian Scholars Program - SDHC will provide up to \$600,000 annually from Federal Moving to Work (MTW) funds for this program. SDSU will raise approximately \$400,000 annually to secure a dollar-for-dollar match.

### **The Monarch School Project**

Federal rental housing vouchers will be provided to 25 families who have at least one child enrolled at the Monarch School in Barrio Logan, which is one of only a few schools that specifically serve homeless children.

## **Award Development Funds**

For the second consecutive year, up to \$10 million will be awarded to developers to create Permanent Supportive Housing or convert existing transitional housing to Permanent Supportive Housing, along with up to 300 Federal housing vouchers.

## **Year-Round City Interim Housing Program with Supportive Services**

The City's Interim Housing Program for Homeless Adults, a 350-bed permanent shelter operated by Father Joe's Villages at the Paul Mirabile Center at its Downtown San Diego campus, replaced two seasonal shelters the City had provided during the winter months for nearly 30 years. The City's Interim Housing Program opened July 1, 2015 and has served approximately 1,800 homeless men and women during the fiscal year, and is part of the Father Joe's Villages continuum of homeless housing and services downtown. Homeless adults living at the shelter have access to Father Joe's Villages wide array of on-site services including three meals per day, basic living skills, job readiness and vocational job training programs, case management, housing locator assistance, and medical clinic. The permanent facility was funded with approximately \$2 million in Community Development Block Grants (CDBG), funds from HUD's Emergency Solutions Grants (ESG) Program, and City General Funds.

## **Green Physical Needs Assessment (GPNA)**

In 2013 – 2014, SDHC commissioned a Green Physical Needs Assessment of all of the 155 rental properties, either owned or managed by SDHC to identify capital improvement/rehabilitation work needed to preserve SDHC affordable housing units over the next 20 years. Based on this plan, SDHC has set in place a process to systematically rehabilitate its properties.

### **B. Provide Housing Choice Voucher families with Opportunities to Become More Financially Self-reliant:**

#### **Moving to Work Contract Negotiations Completed**

On December 18, 2015, the U.S. Congress extended the Housing Commission's Moving to Work (MTW) agreement 10 years, through 2028, under existing terms and conditions without any disruptions.

The extension of the agreement was approved by Congress as part of the \$1.1 trillion Consolidated Appropriations Act for FY 2016 - also known as the "omnibus bill" and signed into law by President Obama on the same day.

On April 14, 2016, pursuant to Section 239 of Title II, Division L of the Consolidated Appropriations Act, 2016 (P.L. 114-113), HUD Deputy Secretary Nani A. Coloretti modified and extended the Housing Commission's current MTW Agreement until the end of the Housing Commission's Fiscal Year 2028 (July 1, 2027 - June 30, 2028).

SDHC's Board of Commissioners voted unanimously to approve the MTW contract extension on June 17, 2016.

The MTW contract extension will continue to allow SDHC to develop innovative solutions that address local issues and needs.

As an MTW agency, SDHC creates innovative, cost-effective approaches for providing housing assistance to low-income families, using a combination of Federal funding allocated to the Housing Commission for public housing and Federal Section 8 Housing Choice Voucher rental assistance.

SDHC is one of only 39 public housing authorities nationwide, out of 3,400, to receive an MTW designation from HUD.

SDHC President & CEO Richard C. Gentry was actively involved in negotiations with HUD to extend SDHC's MTW contract, which had been set to expire in 2018.

### **Job Training Workshops**

The SDHC Achievement Academy is a state-of-the-art learning and resource center and computer lab available at no charge to families receiving Federal Section 8 Housing Choice Voucher (HCV) rental assistance and public housing residents. The SDHC Achievement Academy developed an industry-specific program training participants for jobs in hospitality, caregiving, and security. In addition, SDHC designed an intensive week-long workshop for participants just entering the workforce or struggling with job placement.

### **Youth “Jump Start Your Career” Program**

In January 2015, the SDHC Achievement Academy developed and launched a youth work readiness program to meet the needs of young adults between the ages of 18-24 who were disconnected from education and employment. The primary objective of the “Jumpstart Your Career” SDHC Youth Program is to focus on breaking the cycle of poverty by targeting SDHC public housing participants who are out-of-school youth ages 18-24 and connecting them to education and/or employment opportunities. The SDHC Achievement Academy was awarded a NAHRO Award of Merit in Resident & Client Services for the program in Fiscal Year 2016. In total, 168 young adults participated in the program: 51 participants were placed in new jobs with an average starting wage of \$9.96. Placements included paid internships with companies such as Qualcomm, Sea World, Farm Works, and the American Red Cross. In addition, 86 participants enrolled in college or a vocational training program.

### **Literacy Program/Grade Level Reading**

SDHC implemented a Literacy Program and Grade Level Reading program. In June 2016, SDHC had an employee book drive and collected more than 1,200 children's books for the “SDHC Achievement Academy Children's Book Library.” This started a lending library for children living in households that receive Federal Section 8 Housing Choice Voucher (HCV) rental assistance. In addition, SDHC established a partnership with the San Diego Downtown Library and created a summer reading program with incentives, provided by the library, for HCV families. On May 23, 2016, SDHC was awarded \$780,000 from the W.K. Kellogg Foundation for a three-year program that covers financial stability, health and wellness, education, and employment. The grant

period for this program is July 1, 2016 - June 30, 2019. The program will serve HCV families with young children up to age 8 residing in the City Heights area of San Diego. Using a whole family approach, staff and community partners will deliver services to adults and children within each family.

### **C. Fostering a Culture of Excellence and Innovation**

SDHC increased employee outreach and engagement.

A Classification and Compensation study was completed, and recommendations resulted in more competitive salaries and more accurate job titles/descriptions.

Staff attended training to expand their skill sets and job knowledge when delivering customer service to internal and external constituents.

### **SDHC Business Activities**

#### **Providing Rental Assistance**

SDHC administers a variety of federally funded affordable housing programs and services, including the HCV Program, which provides rental assistance to more than 16,500 low-income families in the City of San Diego.

SDHC's Rental Assistance Division manages the program and is also dedicated to assisting families with supportive services and individualized case management to encourage economic independence.

HOUSING FIRST - SAN DIEGO utilizes SDHC's MTW designation to ensure the success of the goals contained within the action plan. The following was accomplished in Fiscal Year 2016:

#### **1) Created additional affordable housing:**

SDHC committed 62 MTW Project-Based Housing Vouchers to Cypress Apartments, which will be leased up during Fiscal Year 2017, a new construction development providing 62 permanent supportive housing units (studios) in Downtown San Diego. Cypress Apartments will remain affordable for 55 years.

SDHC committed 59 MTW Project-Based Housing Vouchers to Talmadge Gateway, which will be leased up in Fiscal Year 2018, a new construction development providing 59 permanent supportive housing units (studios) for homeless seniors in the City Heights neighborhood of the city of San Diego. Talmadge Gateway will remain affordable for 55 years.

SDHC committed 79 MTW Project-Based Housing Vouchers to New Palace Hotel, a development serving homeless seniors age 62 or older in the Bankers Hill neighborhood of the city of San Diego. The affordable efficiency units will remain affordable for 55 years. SDHC's nonprofit affiliate, Housing Development Partners, in partnership with the Local Initiatives Support Corporation (LISC) purchased New Palace Hotel in January 2016.



SDHC committed 135 MTW Housing Vouchers to provide rental assistance for Supportive Housing for homeless San Diegans at Alpha Square, a new development of 201 affordable apartments. A grand opening was held in November 2015.

- 2) The renovation of the historical Hotel Churchill, 72 affordable studios for homeless individuals - 56 for homeless Veterans, 8 for transitional age youth who are homeless or at risk of homelessness, and 8 for adults exiting the corrections system. The Hotel Churchill received its certificate occupancy on August 1, 2016, marking completion of the renovation. A grand reopening was held September 19, 2016.

SDHC invested more than \$15.3 million in Federal and local funds toward the total rehabilitation cost of \$20.6 million.

In addition, SDHC has provided 72 Federal Sponsor-Based Housing Vouchers directly to the sponsor, HDP, for rental assistance for Hotel Churchill residents. The U.S. Department of Veterans Affairs will provide supportive services for 56 housing units for homeless Veterans. Services for non-Veteran Hotel Churchill residents will be funded by the State Mental Health Services Act, administered by the County of San Diego's Behavioral Health Services Division.

- 3) SDHC completed a top-to-bottom overhaul of 154 affordable housing units at the San Diego Square Senior Apartments in Downtown San Diego. The renovations included updating the interiors, extending the bedroom to create floor-to-ceiling windows; repainting the interior and exterior of the building and removing ivy from the outer walls; upgrading the electrical system, plumbing, sprinkler system, and elevators; adding a computer lab and recreation room; reopening the community room; and adding a computer lab and recreation room. Residents of the units receive rental assistance through Project-Based Housing Vouchers. HUD administers Project-Based Housing Vouchers that provide Federal rental assistance at San Diego Square of \$1,445 per unit, per month for the 154 affordable housing units (\$2.6 million per year).

SDHC's MTW operating budget in Fiscal Year 2016 was \$161,538,565. Examples of MTW initiatives that SDHC has implemented are:

- **Choice Communities.** Since SDHC's Choice Communities program began on January 1, 2010, approximately 290 low-income families in the City of San Diego have been able to move to areas with more transportation, school and employment opportunities. This MTW program helps rental assistance participants move from high- and medium-poverty areas to low-poverty neighborhoods in the City of San Diego, and allows participating families to increase the percentage of monthly adjusted income they pay toward rent so they can move to these communities of enhanced opportunities.
- **Sponsor-Based Housing Voucher Program.** SDHC on July 1, 2010, became one of the first housing agencies in the nation to receive approval from HUD to use its Federal rental housing voucher funding to provide

long-term housing for chronically homeless individuals. SDHC awards Sponsor-Based Housing Vouchers to nonprofit or for-profit organizations, or “sponsors,” that provide supportive services to homeless San Diegans. Sponsor-Based Housing Vouchers provide rental assistance that pays the majority of the tenant’s rent, depending on their income level. To date, SDHC has awarded or committed 460 Sponsor-Based Housing Vouchers, with an annual value of \$5,199,840, based on the monthly cost of the voucher, \$942.

- **Project-Based Housing Voucher Program.** SDHC also awards Federal Project-Based Housing Vouchers to help address homelessness in the City of San Diego and support housing for low-income San Diegans. Federal Project-Based Housing Vouchers are awarded to specific affordable housing developments to provide rental assistance linked to their units. When a tenant moves on, the rental housing voucher remains with the affordable housing unit so that another homeless San Diegan is able to move off the street. SDHC has committed 637 Project-Based Housing Vouchers to serve the homeless with an estimated annual value of \$6,291,012, based on the monthly cost of the voucher, \$823.
- **HUD-Veterans Affairs Supportive Housing (VASH) Vouchers.** In addition to the Federal Sponsor-Based and Project Based Housing Voucher Programs that are part of MTW, SDHC administers HUD-Veterans Affairs Supportive Housing (VASH) Vouchers, which help chronically homeless veterans rebuild their lives. HUD has allocated 975 VASH vouchers, with an estimated annual value of \$8,728,200.
- **SDHC Achievement Academy.** Located at SDHC's downtown San Diego headquarters, the 9,600-square-foot SDHC Achievement Academy provides programs that emphasize career planning, job skills and personal financial education. In Fiscal Year 2016, more than 1,930 SDHC Achievement Academy participants attended 282 workshops addressing various topics, such as Financial Education, Life Skills, Workforce Readiness, Computer Literacy and Job Recruitments. In addition to attending workshops, 1,374 participants received core services, including benefits screening and meeting with a certified financial counselor; 222 participants were placed in jobs; and 300 increased their earnings. In Fiscal Year 2016, the average hourly wage earned by SDHC Achievement Academy participants was \$11.63. From recruitment fairs and employer presentations to small business classes and industry-specific trainings, the SDHC Achievement Academy offers an array of services to meet the varying need levels of its participants.
- **Path to Success.** This SDHC program modifies the method used to determine the monthly rent payment amounts for HCV Section 8 and public housing participants. Implemented on July 1, 2013, Path to Success also sets minimum monthly rent payment amounts for HCV and public housing participants who are able to work (Work-Able). Work-Able Families are Households with at least one adult who is under 55, not disabled, and not a full-time student ages 18-23. Full-time students ages

18-23 are considered Work-Able if they are the spouse, head or co-head of the household. The initial minimum monthly rent payment amounts were based on California's minimum wage standards - \$8/hour at the time the program was implemented. SDHC determined what a Work-Able household could earn working 20 hours a week at minimum wage, and then calculated minimum rent payment amounts that would be approximately 30 percent of that monthly figure. New minimum monthly rent payment amounts took effect on July 1, 2015 - \$300 for households with one Work-Able adult, \$500 for households with two Work-Able adults. SDHC guides Work-Able families to become more financially self-reliant through enrollment at the SDHC Achievement Academy. As this Work-Able population contributes more toward their rents, SDHC's goal is to expand the HCV program to those families on the waiting list if it is financially feasible to do so.

Work-Able households may apply for a temporary hardship exemption from the minimum rent standards under Path to Success. During the hardship period, however, the household must participate in the SDHC Achievement Academy work readiness programs. The minimum rent is not applicable for Elderly/Disabled households.

### **Addressing Homelessness**

SDHC supports programs that address homelessness in the city of San Diego. These programs serve single adults, families, youth, Veterans and seniors. The 2016 Point-in-Time Count conducted the morning of January 29, 2016, by the Regional Task Force on the Homeless identified 8,692 homeless individuals in San Diego County, including 5,093 homeless individuals in the City of San Diego. About 54%, or 2,745, of the City of San Diego's homeless residents, lacked shelter, were living on the streets or in canyons, riverbeds, parks and beaches. Approximately 46%, or 2,348 individuals, were housed temporarily at emergency shelters, hotels and motels, safe havens or transitional housing.

SDHC administers the City of San Diego's Homeless Shelters and Services Programs based on a Memorandum of Understanding between the City of San Diego and SDHC that took effect on July 1, 2010. The City's homelessness programs include a homeless day center, and three shelter programs (Connections Housing Downtown, the City-sponsored one-stop housing and services center for homeless San Diegans; Cortez Hill Family Center, which provides short-term housing and services to help homeless families stabilize their lives; and the City's Year-Round Permanent Interim Housing Program).

SDHC supports Connections Housing Downtown with Federal Project-Based Housing Vouchers that provide rental assistance for 73 studio apartments and 16 interim housing for special needs units. A year-round facility, Connections Housing Downtown is part of an innovative approach to addressing homelessness that combines housing with an array of support services for men and women who previously lived on the streets of Downtown San Diego. Connections Housing Downtown helps its residents with substance abuse counseling, employment services and additional services. A health clinic operated by Family Health Centers of San Diego is located on the first floor of

Connections Housing Downtown. SDHC contracts with People Assisting the Homeless (PATH) San Diego to operate a total of 150 interim housing beds at Connections Housing Downtown on behalf of the City of San Diego. The interim bed program served 532 clients in Fiscal Year 2016, funded through Federal CDBG funds, ESG funds, City General Funds and SDHC locally generated funds, such as lease or rental revenue, for a total of \$669,486.

SDHC also administers the City's family shelter program, Cortez Hill Family Center, which provides housing units for 120-day stays to 45 homeless families at a time. Cortez Hill assisted 172 families in Fiscal Year 2016. The Day Center for Homeless Adults, provides showers, laundry facilities, mail services, a computer lab, free storage for belongings, assessment, counseling, information and referral services and additional assistance to homeless San Diegans. In Fiscal Year 2016, 6,779 homeless adults were served.

In Fiscal Year 2016, SDHC also supported more than 600 transitional housing beds with City of San Diego Inclusionary Housing Funds and Housing Trust Funds. With Federal ESG and Continuum of Care funds, SDHC partnered with several local nonprofit agencies to provide Rapid Re-housing Programs. The programs help to pay security deposits and short-term rents. Additionally, the programs provided services to help clients find housing and not return to homelessness.

### **Creating Affordable Housing**

SDHC owns 154 properties with 2,260 affordable housing rental units and operates 154 Federal public housing units in the city of San Diego.

In addition, SDHC's nonprofit affiliate, Housing Development Partners (HDP), has developed 1,053 affordable rental housing units in the city at properties it has acquired and through partnership developments. HDP partnership developments include two properties owned by SDHC: Parker-Kier Apartments (33 affordable units and one manager's unit) and the historical Hotel Churchill (72 affordable units and one manager's unit).

SDHC is an active and innovative developer of new affordable housing. The agency's hallmark has been its ability to foster affordable housing projects by forging partnership both with the City of San Diego's development agencies and nonprofit/for-profit developers.

SDHC completed several affordable housing partnership developments in Fiscal Year 2016 throughout the City of San Diego:

- Alpha Square, Downtown San Diego, 201 affordable studio apartments with permanent supportive services for formerly homeless individuals.
- Cielo Carmel, Pacific Highlands Ranch, 195 affordable units for families.
- Independence Point, Lincoln Park, 28 affordable townhomes for persons with disabilities.

- Mayberry Townhomes, Mountain View neighborhood, rehabilitation of 69 affordable units for families.
- Rancho Del Sol, Pacific Highlands Ranch, 95 affordable units for families.
- San Diego Square, Downtown, rehabilitation of 154 affordable units for seniors.
- Veterans Village Phase V, Midway, 18 affordable beds for homeless veterans.
- Westminster Manor, Uptown, rehabilitation of 150 affordable units for seniors.

In addition, 35 apartments at five locations in City Heights and Old Town are expected to become part of SDHC's Federal public housing by December 31, 2016, after renovations with an estimated cost of \$3.9 million are completed. The California Department of Housing and Community Development is deferring payments due on loans for the original construction of these apartments for an additional 55 years.

### **Management's Discussion & Analysis**

In addition to above discussion, the Government Accounting Standards Board (GASB) requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. SDHC's MD&A can be found immediately following the report of the independent auditor in the financial section of this report.

The preparation of this report is made possible through the ongoing and dedicated service of the entire staff of the Financial Services Department. Credit also must be given to management and the governing boards for their support for maintaining the highest standards of professionalism in the management of SDHC's finances.



Richard C. Gentry  
President and Chief Executive Officer



Tracey McDermott  
Vice President and Chief Financial Officer



Government Finance Officers Association

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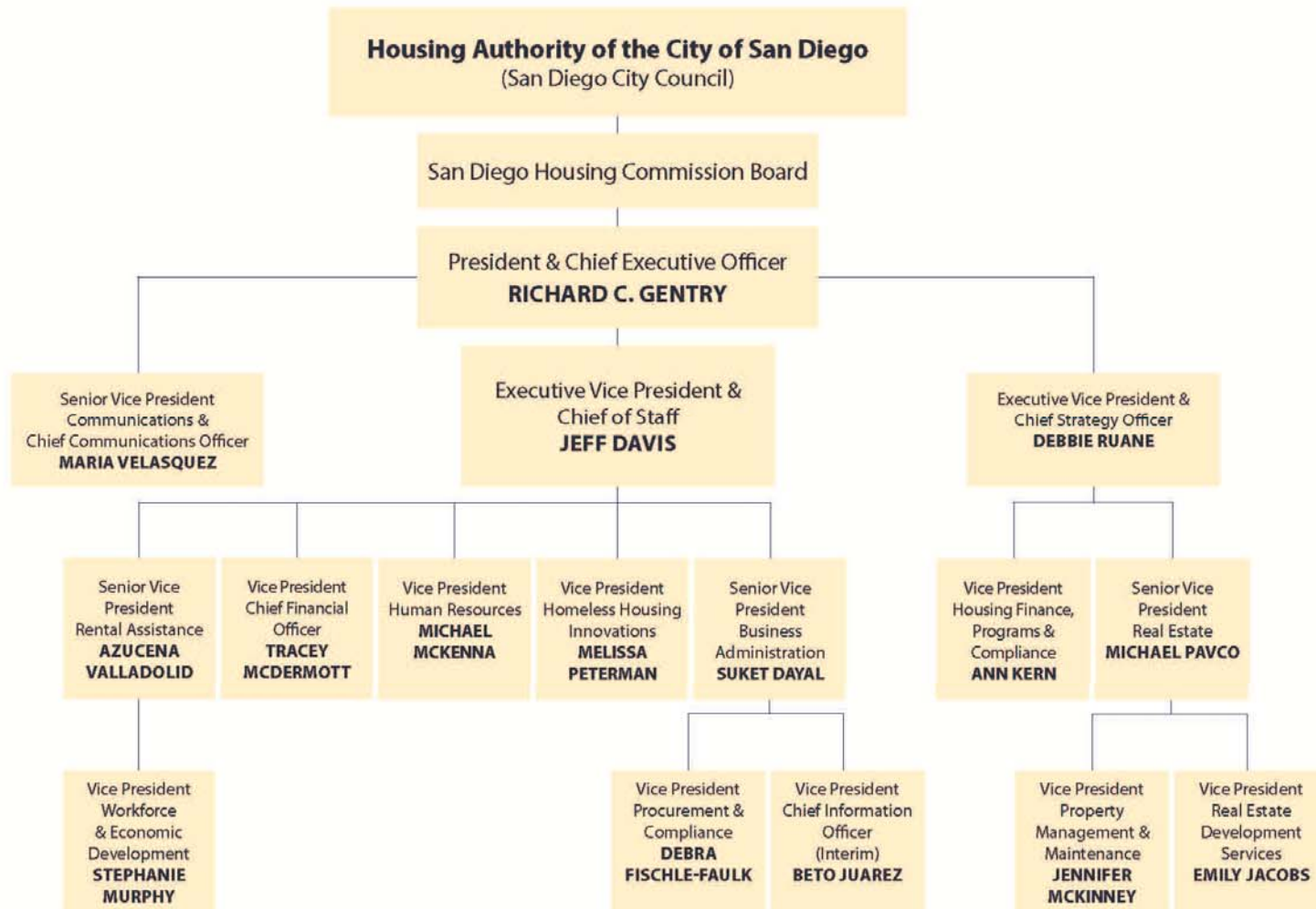
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2015**

Executive Director/CEO



## SDHC Organizational Chart





## SAN DIEGO HOUSING COMMISSION ROSTER OF OFFICIALS

SDHC was formed by the City of San Diego in accordance with the Housing Authority Law of the State of California. The City Council, acting in its capacity as the Housing Authority of the City of San Diego, has final authority over SDHC's budget and major policy decisions.

### **Housing Authority of the City of San Diego**

Council President - District 1	Sherri Lightner
Council President Pro Tem - District 9	Marti Emerald
Councilmember - District 2	Lorie Zapf
Councilmember - District 3	Todd Gloria
Councilmember - District 4	Myrtle Cole
Councilmember - District 5	Mark Kersey
Councilmember - District 6	Chris Cate
Councilmember - District 7	Scott Sherman
Councilmember - District 8	David Alvarez

Members of the SDHC Board of Commissioners are appointed by the Mayor and confirmed by the City Council. Two Commissioners must be residents of assisted housing, and one of the resident Commissioners must be age 62 or older.

### **SDHC Board of Commissioners**

Chair	Gary Gramling
Vice Chair	Roberta Spoon
Commissioner	Margaret Davis
Commissioner	Kellee Hubbard
Commissioner	Ben Moraga
Commissioner	Dorothy Surdi
Commissioner	Frank Urtasun





SAN DIEGO  
HOUSING  
COMMISSION

# Financial Section



## *We're About People*

For the 8th consecutive year, the SDHC Financial Services Department was recognized by the Government Finance Officers Association with the "Certificate of Achievement for Excellence in Financial Reporting" for the fiscal year 2015 (July 1, 2014 – June 30, 2015) Annual Financial Report



## Independent Auditor's Report

To the Board of Commissioners  
of the San Diego Housing Commission

### Report on the Financial Statements

We have audited the accompanying financial statements of the San Diego Housing Commission (SDHC), a component unit of the City of San Diego, California, and its discretely presented component units as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise SDHC's basic financial statements as listed in the table of contents. We did not audit the financial statements of the aggregate discretely presented component units of SDHC. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based solely on the report of the other auditor.

### *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 of 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 SDHC'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 SDHC'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. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*.

### *Opinion*

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of the San Diego Housing Commission and its discretely presented component units as of June 30, 2016, and the changes in financial position and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 25 to 33 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise SDHC's financial statements. The introductory section and the combining schedules listed in the table of contents as supplementary information, the Financial Data Schedule required by the U.S. Department of Housing and Urban Development, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining schedules listed in the table of contents as supplementary information and the Financial Data Schedule required by the U.S. Department of Housing and Urban Development are the responsibility of management and were derived from and relate 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 by us and the other auditor 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, based on our audit and the report of the other auditor, the combining schedules listed in the table of contents as supplementary information and the Financial Data Schedule required by the U.S. Department of Housing and Urban Development are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2016 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 grants agreements, and other matters. The purpose of the 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.

A handwritten signature in cursive script that reads "Cohn Reznick LLP".

Sacramento, California  
November 9, 2016



## **San Diego Housing Commission**

### **Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2016**

This section of the San Diego Housing Commission's (SDHC) component unit financial statements presents an analysis of SDHC's financial performance for the fiscal year that ended on June 30, 2016. As such, it should be read in conjunction with the letter of transmittal preceding this section and the financial statements and related notes following this section.

### **Financial Highlights**

The following represents a brief discussion highlighting selected changes in SDHC's net position, comparing fiscal year 2016 to the previous fiscal year 2015:

- SDHC's net position increased from \$483.7 million to \$518.6 million due to a \$34.9 million surplus generated during fiscal year 2016. The fiscal year 2016 surplus is \$8.1 million (30%) more than the fiscal year 2015 surplus of \$26.8 million, primarily due to an increase of \$12.6 million in non-operating revenue, and a \$4.0 million increase in operating revenue, offset by an increase in operating expenses of \$8.3 million. Included in the increase in non-operating revenue is grant income of \$8.3 million which is offset by an increase of \$4.7 million in grant expense within operating expenses and \$2.3 million increase in administrative expenses. In addition there was a gain on the sale of a capital asset (Hotel Metro) in the current year that contributed a \$3.8 million increase in non-operating revenue.
- Total assets increased by \$33.0 million primarily due to the increase in short-term investments of \$30.5 million due to payoff of loan funds, investment maturities and reinvestment during the year.
- Total liabilities decreased \$1.8 million due to required debt payments and the optional pay down of \$0.9 million, which was equal to the maximum prepayment of 10% annually of the outstanding principal, for the Smart Corner office building.
- Operating revenues increased \$4.0 million (12%), from \$34.4 million in fiscal year 2015 to \$38.4 million in fiscal year 2016. This increase is mostly due to increases of \$1.6 million from dwelling rental income, \$1.9 million in fee revenues and other revenue.
- Operating expenses increased \$8.3 million (4%), from \$198.5 million in fiscal year 2015 to \$206.7 million in fiscal year 2016. This increase is primarily due to the increase in grant expense and administrative expense.
- Other nonoperating income and expenses, net increased \$12.6 million (6%) primarily due to a net increase of \$8.3 million of grant revenue primarily due to receipt of \$4.0 million from the City of San Diego to be used for the Veterans



Initiative and \$4.2 million in federal MTW revenue. In addition gain on sale of Hotel Metro was \$3.8 million recorded during the year.

### Overview of the Financial Statements

SDHC provides a variety of affordable housing and supportive services to individuals within the City of San Diego. The component unit financial statements include the Independent Auditor's Report, Management's Discussion & Analysis (MD&A), basic financial statements, accompanying notes and required supplemental information.

### Required Financial Statements

SDHC financial statements report information using accounting methods similar to those used by private sector companies. These statements offer both short-term and long-term financial information about SDHC activities.

The **Statement of Net Position** includes all of SDHC's assets and liabilities for the year ended June 30, 2016, and provides information about the nature and amounts of investments in resources (assets) and obligations to SDHC's creditors (liabilities). It also provides the basis for computing rates of return, evaluating the capital structure of SDHC, and assessing the liquidity and financial flexibility of SDHC.

The **Statement of Revenues, Expenses and Changes in Net Position** accounts for all of SDHC's revenue and expenses for the year ended June 30, 2016. The statement reflects the results of SDHC's operations over the year and can be used to determine SDHC's credit worthiness and its ability to successfully recover all its costs through grants, tenant charges and other income.

The **Statement of Cash Flows** provides information about SDHC's cash receipts and cash payments during the year ended June 30, 2016. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, capital and related noncapital financing, and investment activities. The statement provides answers to questions of where cash came from, what cash was used for and what caused changes in cash for the reporting periods covered.

The accompanying **Notes to the financial statements** provide additional information that is essential to a full understanding of the data provided in the financial statements.

In addition to the basic financial statements and accompanying notes, the final section in this report also presents certain **supplementary information**. This supplementary information section contains the Combining Schedule of Net Position, Combining Schedule of Revenues, Expenses and Change in Net Position, and Combining Schedule of Cash Flows, along with the annual Financial Data Submission Summary (FDS) report electronically submitted to HUD.



## Financial Analysis of SDHC as a Whole

The following analysis summarizes SDHC's net position (Table 1) and changes in net position (Table 2) during the fiscal years ended June 30, 2016 and June 30, 2015.

**Table 1**  
**Net Position**  
**(in thousands of dollars)**

	<b>June 30, 2016</b>	<b>June 30, 2015</b>	<b>Change \$</b>	<b>Change %</b>
<u>Assets</u>				
Current assets	\$ 96,339	\$ 69,757	\$ 26,582	38%
Noncurrent assets	364,846	361,738	3,108	1%
Capital assets net of depreciation	178,135	174,818	3,317	2%
<b>Total assets</b>	<b>\$ 639,320</b>	<b>\$ 606,313</b>	<b>\$ 33,007</b>	<b>5%</b>
<u>Liabilities</u>				
Current liabilities	\$ 15,243	\$ 13,966	\$ 1,277	9%
Notes payable and non-current liabilities	105,512	108,635	(3,123)	-3%
Total liabilities	120,755	122,601	(1,846)	-2%
<u>Net Position</u>				
Net investment in capital assets	73,123	68,871	4,252	6%
Restricted	176,981	170,195	6,786	4%
Unrestricted	268,461	244,646	23,815	10%
Total net position	518,565	483,712	34,853	7%
<b>Total liabilities and net position</b>	<b>\$ 639,320</b>	<b>\$ 606,313</b>	<b>\$ 33,007</b>	<b>5%</b>

Net position is a useful indicator of an entity's overall financial health and as of June 30, 2016, SDHC's total assets exceeded total liabilities by \$518.6 million. During the fiscal year ended June 30, 2016, SDHC generated an operating surplus of \$34.9 million.

Current assets increased by \$26.6 million in the fiscal year ended June 30, 2016, as a result of additional inclusionary payments received during the year as well as proceeds from sale of Hotel Metro being invested in short-term investments due to market volatility and anticipated operational cash requirements. As the market offers additional opportunities for investment into longer term maturities, SDHC will invest more funds into these opportunities.





Total liabilities decreased \$1.8 million due to required debt payments and the optional pay down of \$0.9 million in loan principal for the Smart Corner office building.

Net position increased a total of \$34.9 million. Net investments in capital assets increased \$4.3 million, primarily due to spending on State Sites conversion which is anticipated to be completed in fiscal year 2017.

Restricted net position increased \$6.8 million, primarily due to an additional \$6.1 million in reserves for HOME notes receivable and related accrued interest. Payments received by SDHC, including interest, net of administrative expenses allowances, are required to be recycled and used for future HOME Program and Neighborhood Stabilization Program (NSP) purposes, and therefore must continue to meet the applicable grant requirements. Restricted net position includes 90% of the principal amount of loans made and accrued notes receivable interest.

Restricted net position also includes \$3.3 million in replacement reserves set aside to meet lender requirements applicable to the debts of the six LLCs. Other activity in restricted net position includes an increase of \$1.1 million in Veterans Affairs Supportive Housing (VASH) funds and \$0.08 million in Family Unification Program (FUP) funds. Additional information can be found in Note 14 to the Basic Financial Statements.

Unrestricted net position increased \$23.8 million to \$268.5 million as of June 30, 2016. Unrestricted net position includes funds that will be spent for future years' contractual, grant and other obligations, funds invested in notes receivable, public housing funds, capital funds needed for future property maintenance and improvements, funds reserved for future MTW program initiatives and unrestricted reserve funds available for operations and contingencies.





**TABLE 2**  
**Changes in Net Position**  
**(in thousands of dollars)**

	<b>June 30, 2016</b>	<b>June 30, 2015</b>	<b>Change \$</b>	<b>Change %</b>
Operating revenues				
Dwelling rental income	\$ 28,090	\$ 26,450	\$ 1,640	6%
Land lease and other rental income	2,669	2,245	424	19%
Fee revenue	3,867	2,947	920	31%
Other revenue	3,777	2,768	1,009	36%
Total operating revenues	38,403	34,410	3,993	12%
Operating expenses	206,744	198,471	8,273	4%
Deficit before depreciation and other nonoperating income and expenses	(168,341)	(164,061)	(4,280)	3%
Depreciation	5,131	4,917	214	4%
Deficit before other non- operating income and expenses	(173,472)	(168,978)	(4,494)	3%
Other nonoperating income and expense, net	208,325	195,762	12,563	6%
Change in net position	\$ 34,853	\$ 26,784	\$ 8,069	30%

This year's overall surplus of \$34.9 million represents an increase of 30%, or \$8.1 million, from fiscal year 2015, mainly due to an increase in operating revenues of \$4.0 million, offset by an increase of \$8.3 million in operating expenses (excludes depreciation), and an increase of \$12.6 million in other nonoperating income and expenses (net).

Operating revenues increased by \$4.0 million, mostly due to increased income from dwelling rental income, fee revenue and other revenue.

Operating expenses increased \$8.3 million, from \$198.5 million during fiscal year 2015 to \$206.7 million in fiscal year 2016. This is mainly due to a net increase of \$4.7 million in grant expense as well as almost \$2.0 million increase in salary and salary related expenses primarily due to increased head count and a cost of living adjustment of 3% as agreed to in the collective bargaining agreement with the Union, and additional bad



debt loan loss provision change of \$1.3 million following application of refined methodology relating to the consideration of potential loan losses.

Other nonoperating income and expenses, net, increased \$12.6 million primarily due to an increase of \$8.3 million in grant revenue. The increase in grant revenue relates to several projects undertaken during the fiscal year, including the San Diego Square Veterans Initiative which resulted in \$4.0 million of additional revenue to be used for the support of this program to house 1,000 Veterans. In addition the Commission recognized \$3.8 million gain on sale of land and buildings relating to the Hotel Metro sale that occurred in fiscal year 2016.

### Capital Assets

SDHC's capital assets, net of depreciation, as of June 30, 2016, totaled \$178.1 million which is a net increase of \$3.3 million. This figure includes land, buildings, building improvements, vehicles, equipment and construction-in-progress.

The \$6.0 million increase in Construction in progress was the result of rehabilitation projects at the Scattered Sites and Park Crest properties. The decrease in land and buildings of \$2.6 million was primarily due to building improvements of \$2.4 million offset by \$4.8 million of depreciation.

The following summarizes SDHC's capital assets, net of accumulated depreciation, and changes therein (Table 3) for the years ended June 30, 2016 and June 30, 2015.

**TABLE 3**  
**Net Capital Assets**  
**(in thousands of dollars)**

	<b>June 30, 2016</b>	<b>June 30, 2015</b>	<b>Change \$</b>	<b>Change %</b>
Land and buildings	\$ 169,303	\$ 171,945	\$ (2,642)	-2%
Construction-in-progress	8,297	2,267	6,030	266%
Equipment	535	606	(71)	-12%
<b>Total</b>	<b>\$ 178,135</b>	<b>\$ 174,818</b>	<b>\$ 3,317</b>	<b>2%</b>

Additional information on SDHC's capital assets can be found in Note 7 to the Basic Financial Statements.

### Current and Long-Term Debt

On June 30, 2016, notes payable including current and noncurrent, totaled \$106.9 million.



Fannie Mae and FHA loans comprised \$87.4 million of this balance. These loans are non-recourse obligations of the LLCs only and not of SDHC.

The Capital loan for the Smart Corner office building located at 1122 Broadway, San Diego, California 92101, [served by Key Bank Real Estate (who took over the loan from GE Capital in September 2015)] made up an additional \$8.1 million of the notes payable balance. The loan term is 15 years, with payments amortized over 25 years, and a fixed interest rate of 6.08% for 10 years. In November 2015, SDHC exercised the annual option to pay down the loan in the amount of \$0.9 million.

Two loans payable to the City of San Diego, originally to the Redevelopment Agency of the City of San Diego, comprised \$6.8 million of the notes payable balance. The first of these loans, with a balance on June 30, 2016 of just under \$6.1 million, is forgivable in 2065 and carries 1% simple interest. The second loan, with a remaining balance of \$0.7 million, is forgivable in 2022 and bears no interest.

Two loans from the State of California, originally made to finance the acquisition of the Otay Villas Apartments and Scattered Sites properties, constituted \$4.6 million of this balance. These loans were renegotiated through the Housing Loan Conversion Program in May 2013, and their terms were extended for 55 years to 2068. These two loans now bear an interest rate of 3% with required annual interest payments and potential residual receipt payments.

Debt additions and payments during the fiscal year and further detail related to these debt obligations can be found in Note 9 to the Basic Financial Statements.

### **Financial Reporting Entity**

In accordance with Governmental Accounting Standards Board (GASB) Statement 61, Housing Development Partners (HDP) is incorporated into the accompanying financial statements. HDP is a nonprofit public benefit corporation established by SDHC in 1990. Its primary mission is to facilitate the development of affordable housing for low- and moderate-income persons by pursuing opportunities in collaboration with affordable housing developers or by pursuing unique opportunities that require a public/private partnership. HDP has been audited by Leaf & Cole LLP. Note 19 to the Basic Financial Statements includes the December 31, 2015, HDP financial statements.

### **Economic Factors and Next Year's Budget**

The majority of SDHC's programs depend on federal financial assistance from the U.S. Department of Housing and Urban Development (HUD) to continue operations. In fiscal year 2016, SDHC received 74% of its revenue from HUD, most of which was awarded to SDHC for Moving to Work (MTW) initiatives. SDHC's budget and financial condition are greatly affected by the financial condition of the federal government and Congress's annual appropriation to HUD.

HUD grants for housing programs and program administration funding may decrease due to the national economic and political climate. As good stewards of the taxpayer's



money, it is SDHC's responsibility to strive to do more with less. Through a combination of expense reduction and the prudent utilization of available programmatic reserves, SDHC was able to maintain a balanced budget in fiscal year 2016 and will have a balanced budget in fiscal year 2017.

Annually, SDHC submits an MTW Plan to HUD that describes initiatives to be implemented over the next fiscal year. Following each year, SDHC issues an MTW Report that gives an accounting of activities put into action during the fiscal year. HUD approved SDHC's fiscal year 2016 MTW Plan on August 24, 2015. HUD's fiscal year runs from October to September. HUD approved the 2017 MTW Plan on June 30, 2016. The plans can be viewed at <http://www.sdhc.org/Rental-Assistance.aspx?id=5424>.

City of San Diego economic conditions have shown solid improvements over the past year as indicated by the increase in local housing market values, low inflation rates, low rental vacancies, and improvement in the labor market. Low inflation rates and an improved job market should benefit the low- and moderate-income population the SDHC serves. However, some of the other economic conditions, such as increased housing costs, may have an adverse effect on first time home buyers.

Local residential real estate prices continue to increase with higher home values and low mortgage rates. June 2016 saw home prices increase 6.3% more than prices of a year earlier.<sup>1</sup> Nationally, inflation is expected to remain low for the foreseeable future, with economists forecasting the core consumer price index for inflation to be at approximately 2.2% for calendar year 2016 and 2.1% for 2017.<sup>2</sup>

According to the San Diego County Apartment Association's spring survey, the vacancy rate in the rental housing market in the City of San Diego is 3.2%, a decrease from the 4.2% vacancy rate the previous spring. San Diego continues to experience a severe shortage of residential rental units, despite a new development of several large multi-family apartment complexes in San Diego. Average overall rental rates are \$1,560 in June 2016, a 3.1% increase over a year ago.<sup>3</sup>

Another indication that the local economy is continuing to improve is the Index of Leading Economic Indicators. The Index for the region was 140.8 in April 2016, which is the highest level in the past 9 years.<sup>4</sup> Additionally, local unemployment fell to 4.0% in May 2016, compared to 4.8% in June 2015.<sup>5</sup>

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<sup>1</sup> San Diego County Home Prices Rise 6.3%, <http://www.sandiegouniontribune.com> June 28, 2016

<sup>2</sup> U.S. Economic Forecast, Wells Fargo Securities Economic Forecast, <https://www08.wellsfargomedia.com> June 8, 2016

<sup>3</sup> 2016 Spring Vacancy and Rental Rate Survey, San Diego County Apartment Association Fall Survey, <http://www.sdcaa.com> June, 2016

<sup>4</sup> Professor Alan Gin, Leading Economic Indicators, San Diego Burnham-Moores Center for Real Estate, <http://home.sandiego.edu/~agin.usdlei> May 31, 2016

<sup>5</sup> San Diego Unemployment Rate Report, Homefacts, <http://homefacts.com> May 2016



At the same time that the local economy is improving, HUD's 2015 Annual Homeless Assessment Report to Congress showed that San Diego County had the fourth-largest homeless population in the nation.<sup>6</sup> According to the annual Point-in-Time Count of homeless individuals, conducted by the Regional Task Force on the Homeless, homelessness throughout San Diego County has decreased from April 2015 to January 2016, from 8,742 to 8,692 homeless persons, a decrease of less than 1%.<sup>7</sup>

SDHC has awarded more than 2,300 federal housing vouchers since 2010 to address homelessness in the City of San Diego. In addition, SDHC administers the City of San Diego's "Housing our Hero's" initiative, a program that aims to provide rental assistance to 1000 Homeless Veterans. SDHC also administers the City's Homeless Shelters and Services Programs.

SDHC is committed to providing affordable, safe and quality homes for low- and moderate-income families and individuals in the City of San Diego. The need for affordable housing in the San Diego area remains very high in comparison to the rest of the nation. The number of people served and the level of service SDHC provides are constrained only by the amount of resources available for those services. SDHC's Board-approved fiscal year 2017 budget of \$368.0 million will continue to provide a high level of services for SDHC's clients.

### **Contacting SDHC's Financial Management**

This financial report was designed to provide a general overview of SDHC's financial position and is intended for distribution to a wide variety of interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Tracey McDermott, Chief Financial Officer and Vice President of Financial Services, San Diego Housing Commission, 1122 Broadway, Suite 300, San Diego, California 92101.

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<sup>6</sup> CoCs with the Largest Numbers of Homeless People, The 2015 Annual Homeless Assessment Report to Congress: Part 1, [www.hugexchange.info](http://www.hugexchange.info) November 2015

<sup>7</sup> San Diego County Estimates of Homelessness, 2016 We ALL Count Data & Results, <http://www.rtfhsd.org> January 29, 2016



# Basic Financial Statements



## *We're About People*

SDHC is in the second year of **HOUSING FIRST – SAN DIEGO**, SDHC's three-year Homelessness Action Plan, which uses the Housing First Model – to provide homeless individuals with housing as quickly as possible, with supportive services as needed.

**HOUSING FIRST – SAN DIEGO** will impact the lives of up to 1,500 homeless San Diegans.





## San Diego Housing Commission

## STATEMENT OF NET POSITION

June 30, 2016

	Primary Government	Component Units
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 23,331,032	\$ 6,954,464
Restricted cash and cash equivalents	4,095,554	1,556,401
Short-term investments	52,629,304	-
Accounts receivable - tenants, net	354,180	2,777
Accounts receivable - funding sources	12,070,930	-
Accounts receivable - other	2,451,179	227,870
Notes and mortgages receivable, current portion	645,747	-
Accrued interest receivable - investments	170,301	-
Prepaid items and other assets	591,078	250,450
Total current assets	96,339,305	8,991,962
Noncurrent assets		
Restricted cash and cash equivalents	-	986,414
Long-term investments	58,342,268	-
Accrued interest receivable - notes and mortgages receivable	37,730,636	-
Notes and mortgages receivable, net of allowance for loan losses	266,843,976	-
Investment in partnerships	-	41,615
Other assets	1,929,012	5,135,156
Capital assets not being depreciated	76,378,334	13,839,311
Capital assets, net of accumulated depreciation	101,756,674	32,460,504
Total noncurrent assets	542,980,900	52,463,000
Total assets	\$ 639,320,205	\$ 61,454,962
Deferred outflows of resources	\$ -	\$ -

(continued)



## San Diego Housing Commission

## STATEMENT OF NET POSITION - CONTINUED

June 30, 2016

	Primary Government	Component Units
<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ 4,160,978	\$ 6,406,780
Accounts payable - funding sources	488,595	-
Accrued payroll and benefits	1,363,225	17,934
Accrued compensated absences	1,989,103	-
Accrued interest payable	509,502	193,285
Notes payable, current portion	2,282,222	425,601
Deposits payable	1,986,454	117,916
Unearned revenue	2,463,232	5,610
Total current liabilities	15,243,311	7,167,126
Noncurrent liabilities		
Accrued interest payable - noncurrent	349,286	1,897,238
Notes payable, net of current portion	104,602,279	32,665,139
Other liabilities	560,599	9,247,686
Total noncurrent liabilities	105,512,164	43,810,063
Total liabilities	\$ 120,755,475	\$ 50,977,189
Deferred inflows of resources	\$ -	\$ -
<u>Net Position</u>		
Net investment in capital assets	\$ 73,122,616	\$ -
Restricted		
HOME notes receivable reserve	163,962,769	-
NSP notes receivable reserve	7,301,265	-
Replacement reserves	3,337,846	-
VASH and FUP housing assistance reserves	2,378,941	-
Total restricted	176,980,821	-
Unrestricted	268,461,293	10,477,773
Total net position	\$ 518,564,730	\$ 10,477,773
Total liabilities and net position	\$ 639,320,205	\$ 61,454,962

See notes to financial statements





San Diego Housing Commission

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year ended June 30, 2016

	Primary Government	Component Units
Operating revenues		
Dwelling rental income	\$ 28,090,296	\$ 4,877,188
Land lease and other rental income	2,668,438	91,994
Fee revenue	3,866,857	391,043
Other revenue	3,777,214	62,404
Total operating revenues	38,402,805	5,422,629
Operating expenses		
Administrative expenses	31,826,310	1,896,924
Tenant services	1,626,314	66,221
Asset management	8,895,547	1,580,446
General expenses	2,072,713	121,519
Grant expense	15,753,280	-
Housing assistance	146,570,467	-
Depreciation	5,130,888	1,398,410
Total operating expenses	211,875,519	5,063,520
Operating income (loss)	(173,472,714)	359,109
Nonoperating revenues (expenses)		
Grant revenue	200,005,483	114,524
Interest income on investments and notes receivable	9,988,417	7,152
Interest expense	(5,513,125)	(1,174,688)
Gain on sale of capital assets	3,844,578	-
Total nonoperating revenues (expenses)	208,325,353	(1,053,012)
Change in net position before capital transactions	34,852,639	(693,903)
Contributions, net of distributions	-	6,827,086
Change in net position	34,852,639	6,133,183
Net position		
Beginning of year	483,712,091	4,344,590
End of year	\$ 518,564,730	\$ 10,477,773

See notes to financial statements



## San Diego Housing Commission

### STATEMENT OF CASH FLOWS

Year ended June 30, 2016

	Primary Government
Cash flows from operating activities	
Cash received from tenants and operations	\$ 38,405,278
Cash payments to suppliers for operations	(164,160,737)
Cash payments for general and administrative expenses	(34,414,027)
Net cash used for operating activities	(160,169,486)
Cash flows from capital and related financing activities	
Principal paid on notes payable	(3,094,289)
Acquisition and construction of capital assets, net	(8,448,295)
Sale of capital assets	3,844,579
Proceeds from additional borrowings	64,878
Interest expense paid	(5,397,976)
Net cash used for capital and related financing activities	(13,031,103)
Cash flows from noncapital financing activities	
Cash received from grants	202,683,780
Net cash provided by noncapital financing activities	202,683,780
Cash flows from investing activities	
Interest on investments and notes receivable	9,485,695
Collections of notes receivable	10,095,578
Cash loaned on notes receivable	(20,988,137)
Purchases of investments	(66,925,783)
Proceeds from sale of investments	36,278,100
Net cash used for investing activities	(32,054,547)
Net decrease in cash and cash equivalents	(2,571,356)
Cash and cash equivalents	
Beginning of year	29,997,942
End of year	\$ 27,426,586
Financial statement presentation	
Cash and cash equivalents	\$ 23,331,032
Restricted cash and cash equivalents	4,095,554
Total cash and cash equivalents	\$ 27,426,586

(continued)



## San Diego Housing Commission

### STATEMENT OF CASH FLOWS - CONTINUED

Year ended June 30, 2016

	<u>Primary Government</u>
Reconciliation of operating loss to net cash used for operating activities	
Operating loss	\$ (173,472,714)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	5,130,888
Amortization	75,285
Provision for loan losses	556,382
Allowance for forgivable loans	8,188,606
Changes in operating assets and liabilities:	
(Increase) decrease in tenant receivables	(31,937)
(Increase) decrease in other receivables	(574,322)
(Increase) decrease in prepaid items and other assets	(382,253)
Increase (decrease) in accounts payable	(277,934)
Increase (decrease) in accrued payroll and benefits	14,149
Increase (decrease) in deposits payable	484,344
Increase (decrease) in unearned revenues	156,376
Increase (decrease) in other liabilities	(36,356)
Net cash used for operating activities	<u><u>\$ (160,169,486)</u></u>

See notes to financial statements



## San Diego Housing Commission

### NOTES TO FINANCIAL STATEMENTS

June 30, 2016

#### **Note 1 - The Financial Reporting Entity**

##### **Primary Government**

The San Diego Housing Commission (SDHC), a governmental agency, was formed by the City of San Diego (City) in accordance with the Housing Authority Law of the State of California, through the adoption of Ordinance No. 2515 on December 5, 1978. SDHC serves low and moderate income families by providing rental assistance payments, rental housing, loans and grants to individuals and not-for-profit organizations. SDHC is governed by the Housing Authority of the City of San Diego (Housing Authority), which is composed of the nine members of the San Diego City Council. The Housing Authority has final authority over SDHC's budget and major policy changes.

SDHC is also an integral part (component unit) of the City as a financial reporting entity. The accounts of SDHC have been included within the scope of the basic financial statements of the City.

##### **Component Units**

The governmental reporting entity for which these financial statements have been prepared consists of SDHC (the primary government) and its component units. Component units are legally separate organizations for which the primary government is financially accountable, or other organizations whose nature and significant relationships with SDHC are such that exclusion would cause SDHC's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and (i) either SDHC's ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on SDHC. The basic financial statements include both blended and discretely presented component units. Although the component units follow accounting principles of the Financial Accounting Standards Boards (FASB), certain transactions may be reflected differently in these statements than in the separately issued information in order to conform to the presentation of the primary government.

##### **Blended Component Units**

SDHC has seven blended component units: Belden SDHC FNMA LLC, Northern SDHC FNMA LLC, Central SDHC FNMA LLC, Northern SDHC FHA LLC, Southern SDHC FHA LLC, Central SDHC FHA LLC and Mercado SDHC LLC (together collectively referred to as the LLCs). With the exception of Mercado SDHC LLC, the



### San Diego Housing Commission

#### NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

titles of 77 properties have been transferred from SDHC to the LLCs. SDHC includes its blended component units in its business-type activities' financial statements. See Note 18 for additional information about the blended component units.

These blended component units are legally separate entities, however are, in substance, part of SDHC's operations. The Management of SDHC has operational responsibility for the component units; therefore the financial information of these entities is combined with the financial information of SDHC.

#### **Discretely Presented Component Units**

SDHC has eleven discretely presented component units which are financially and legally separate entities from SDHC: Housing Development Partners of San Diego (HDP), HDP Mason Housing Corporation (Mason), Casa Colina, LP (Casa Colina), Logan Development II, LP. (Logan II), HDP Broadway LP (Broadway), HDP Churchill LLC (Churchill), HDP Parkier Kier, LLC (Parker Kier), Logan Development Management LLC (Logan Mgmt) HDP Broadway Management LLC (Broadway Mgmt), HDP Churchill LP (Churchill LP) and HDP Island Village, LLC (Island Village).

These discretely presented component units are operationally as well as legally separate from the primary government and therefore are reported in a separate column in the basic financial statements.

HDP is a California nonprofit public benefit corporation established by SDHC in 1990. Its mission is to develop and preserve housing for low and moderate income San Diegans through the rehabilitation of existing properties and construction of new properties. HDP Board members include two SDHC board members and SDHC's CEO. The staff of HDP are SDHC staff. In accordance with Governmental Accounting Standards Board (GASB) Statement 61, HDP is incorporated into the accompanying financial statements. HDP has been audited by Leaf & Cole LLP.

The financial statements of Mason, Casa Colina, Logan II, Broadway, Churchill, Parker Kier, Logan Mgmt, Island Village, Churchill LP, and Broadway Mgmt have been consolidated in HDP's audited financial statements and are presented in a separate column from the financial information of SDHC. All discretely presented component units report on a calendar year. See Note 19 for additional information about the discretely presented component units.



## San Diego Housing Commission

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

#### **Note 2 - Summary of Significant Accounting Policies**

##### **Government-Wide and Fund Financial Statements**

The government-wide financial statements report information of the primary government and its component units. The primary government is reported separately from certain legally separate discrete component units for which the primary government is financially accountable. For financial reporting purposes, SDHC reports all of its operations as a single business activity in a single enterprise fund. Therefore, the government-wide and fund financial statements are the same.

##### **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 business-type activities of SDHC and its wholly owned LLCs, as well as its discretely presented component units. These basic financial statements are presented in accordance with the GASB standards.

##### **Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The basic financial statements 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 present 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.

SDHC distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services. Operating expenses include the cost of sales and services, general and administrative expenses and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

##### **Fair Value**

Authoritative guidance establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values, requiring that assets and liabilities



## San Diego Housing Commission

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

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 market prices for similar assets or liabilities in active markets, 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.

#### **New Accounting Pronouncements**

During the fiscal year ending June 30, 2016, SDHC has implemented the following new accounting standards issued by the GASB:

- Statement No. 77, "Tax Abatement Disclosures". GASB Statement No. 77 requires governments that enter into tax abatement agreements to make certain disclosures about those agreements. The adoption of this Statement has no effect on SDHC's financial statements for the fiscal year ending June 30, 2016.
- Statement No. 78, "Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans". GASB Statement No. 78 amends the scope and applicability of Statement no. 68 to exclude pensions provided to employees of state and local government employers through a cost-sharing multiple-employer defined benefit pension plan that meets certain criteria. The adoption of this Statement has no effect on SDHC's financial statements for the fiscal year ending June 30, 2016.
- Statement No. 79, "Certain External Investment Pools and Pool Participants". GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The adoption of this Statement has no effect on SDHC's financial statements for the fiscal year ending June 30, 2016.



### San Diego Housing Commission

#### NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

SDHC is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

- Statement No. 80, “Blending Requirements for Certain Component Units”. GASB Statement No. 80 establishes additional blending requirements for the financial statement presentation of component units and applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The requirements of this Statement are effective for the SDHC’s fiscal year ending June 30, 2017.
- Statement No. 81, “Irrevocable Split-Interest Agreements”. GASB Statement No. 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities and deferred inflows of resources from the inception of the agreement and revenues when the resources become applicable to the reporting period. The requirements of this Statement are effective for the SDHC’s fiscal year ending June 30, 2018.
- Statement No. 82, “Pension Issues”. GASB Statement No. 82 amends Statements Numbers 67, 68 and 73. This Statement, among other things, amends Numbers 67 and 68 by changing the required supplemental information to require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based and ratios that use that measure instead of the pre-amended requirement of covered-employee payroll which is the payroll of employees that are provided with pensions through the pension plan and that related ratio usage. It further clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement No. 67 and as employee contributions for purposes of Statement No. 68. It also requires that employer’s expense and expenditures for those amounts be recognized in the period for which the contribution was assessed and classified in the same manner as the employer classifies similar compensation other than pensions. The requirements of this Statement are effective for the SDHC’s fiscal year ending June 30, 2017.





## San Diego Housing Commission

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

#### **Cash and Cash Equivalents**

SDHC's cash and cash equivalents are considered to be cash on hand, demand deposits, reserves for replacements, certificates of deposits and securities with original maturities of three months or less from the date of acquisition that are not specifically restricted as to use.

#### **Restricted Cash and Cash Equivalents**

Restricted cash and cash equivalents represent deposits to lender required reserves for replacements, insurance reserve and security deposit accounts.

#### **Investments**

All investments are stated at fair value, except for some certificates of deposit and pooled investments. These investments are instead stated at amortized cost and net asset value, respectively.

#### **Interfund Transactions**

Interprogram due from/to have been eliminated as prescribed by GASB standards in regards to interfund activities, payables and receivables.

#### **Notes and Interest Receivable**

Funds loaned by SDHC are recorded as notes receivable. Interest on notes receivable is accrued at least annually. A contra-asset account, allowance for loan and interest losses, represents the current estimates of the amount of loans and interest that will become uncollectible.

#### **Capital Assets**

Capital assets are stated at cost or estimated historical cost. Contributed capital assets are recorded at estimated fair market value at the time received. Net interest costs are capitalized on projects during the construction period. The capitalization threshold for all capital assets is \$5,000.



## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

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

	<u>Years</u>
Buildings	40
Building improvements	15
Office equipment	5
Dwelling equipment	5
Vehicles	5
Computers/software	3

Property acquired with HUD funds is considered to be owned by SDHC while used in the program for which it was purchased. However, HUD may have a reversionary interest in the property and ownership of any proceeds from disposition thereof.

The costs of normal maintenance and repair that do not materially extend asset lives, enhance its efficiency or increase or amend asset usefulness are not capitalized.

**Impairment of Capital Assets**

SDHC reviews its capital assets 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, 2016, there has been no impairment of the capital assets.

**Accrued Compensated Absences**

It is SDHC's policy to permit employees hired prior to July 1, 1994, to accumulate up to 650 hours of annual leave. Employees hired after July 1, 1994, are permitted to accumulate a maximum of 380 hours. All employees whose service is terminated shall be entitled to receive the equivalent amount of pay for the balance in their annual leave account at the time of termination.

In accordance with GASB standards, vacation leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees, if the leave is attributable to past service and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means such as cash payments at termination or



### San Diego Housing Commission

#### NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

retirement. The liability for compensated absences was \$1,989,103 at June 30, 2016.

In providing direction for conversion to the GAAP basis of accounting, HUD's Accounting Brief No. 6 discusses the conflicting direction given in HUD grant handbooks, which are not considered GAAP, and the cost principles of GAAP. In its final analysis, HUD opines that "Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under federal awards, including but not necessarily limited to wages, salaries, and fringe benefits." Since federal awards extend for a limited time period, and accrued benefits may not be paid out during the term of the award, the above analysis can be reasonably interpreted to mean that costs may be drawn down at the close of the award period to fund unpaid compensated absences.

As a matter of convenience, to allow SDHC to close inactive funds and to lessen the administrative burden, SDHC tracks all compensated absence liabilities in the business activities fund.

#### **Notes Payable and Interest Payable**

Notes payable consists of notes from banks, the City, State and Federal agencies. Interest on these notes is accrued at year-end.

#### **Unearned Revenue**

Unearned revenue includes rents received in advance from tenants, unearned interest income, and grant funds received from other governmental agencies, which are conditioned upon incurring certain qualifying costs or meeting other conditions. The rents from tenants will be recognized as revenue when earned and the grant funds will be recognized as revenue when qualifying costs are incurred.

#### **Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense until then. SDHC does not have any items that currently meet this criterion as of June 30, 2016.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial element, Deferred Inflows of Resources, represents an acquisition of net position that applies



## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

to a future period and so will not be recognized as revenue until then. SDHC does not have any items that meet this criterion as of June 30, 2016.

**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 conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Note 3 - Cash, Cash Equivalents and Investments**

Cash, cash equivalents and investments at June 30, 2016 consist of the following:

Deposits and petty cash	\$ 23,331,032
Local Agency Investment Fund	11,045,441
San Diego County Investment Pool	17,090,083
Certificates of deposit	2,940,818
Agency bonds	79,870,330
Other	24,900
	<hr/>
Total unrestricted cash and investments	134,302,604
Restricted cash and cash equivalents	<hr/> 4,095,554
Total	<hr/> <hr/> \$ 138,398,158



### San Diego Housing Commission

#### NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

##### **Deposits**

The fair value of SDHC's cash deposits and petty cash are \$23,331,032 at June 30, 2016. Bank balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 and for amounts over \$250,000, collateralized with securities held by the pledging financial institutions in SDHC's name in accordance with California Government Code as discussed below.

The California Government Code requires California financial institutions to secure cash deposits of public institutions not covered by federal deposit insurance by pledging government securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. As a result, for the purpose of custodial credit risk the collateral for cash deposits is considered to be held in SDHC's name.

The fair market value of pledged securities must equal at least 110% of SDHC's cash deposits. California law also allows financial institutions to secure Commission deposits by pledging first trust deed mortgage notes having a value of 150% of SDHC's total cash deposits.

##### **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.

SDHC utilizes the services of an experienced financial advisor to aid in making investment decisions. 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.

Investments in the State's Local Agency Investment Fund (LAIF) and the San Diego County Investment Pool (SDCIP) represent SDHC's equity in pooled investments. Other investments such as CDs, bonds, government agency securities and demand deposit accounts are safe kept with commercial banking institutions.



## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Local Agency Investment Fund Investments**

SDHC participates in the State's LAIF, which is regulated by California Government Code. LAIF is part of the State of California Pooled Money Investment Account (PMIA) and is protected by statute ensuring invested funds remain Commission assets. The fair value of the investment portfolio of PMIA at June 30, 2016, was \$75.4 billion. PMIA is not registered with the Securities and Exchange Commission (SEC) but is required to invest in accordance with California State Code. The average maturity of PMIA investments was 167 days as of June 30, 2016.

As of June 30, 2016, SDHC had \$11,045,441 invested in LAIF. At that date, LAIF fair value factor of 1.000621222 was used to calculate the fair value of the investments in LAIF. More information on LAIF investment pool can be found at <http://www.treasurer.ca.gov/pmia-laif/laif.asp>

**San Diego County Investment Pool Investments**

SDHC voluntarily participates in the SDCIP. SDCIP is a Standard & Poor's AAA-rated fund managed by the San Diego County Treasurer - Tax Collector. The fair value of the investment portfolio of SDCIP at June 30, 2016 was \$8.7 billion and had a weighted average yield to maturity of 0.848%, a weighted average days to maturity of 310 days and an effective duration of 0.65 years. In addition to voluntary participants such as SDHC, the pool is largely made up of mandatory participants such as the County of San Diego (36.80%), public schools (45.01%), community colleges (11.19%) and non-County funds (2.28%). Voluntary depositors make up only 4.72% of the invested funds as of June 30, 2016.

As of June 30, 2016, SDHC had \$17,090,083 invested in SDCIP. More information on SDCIP can be found at [http://www.sdtreastax.com/content/dam/ttc/docs/pool\\_reports\\_1606.pdf](http://www.sdtreastax.com/content/dam/ttc/docs/pool_reports_1606.pdf).

**Certificates of Deposit**

As of June 30, 2016, SDHC had \$2,940,818 in negotiable certificates of deposit in its investment portfolio, of which \$2,450,000 is held at amortized cost. Each certificate of deposit is issued through a separate legal entity and purchased in an amount under the \$250,000 FDIC federally insured limit.

**Agency Bonds**

SDHC's investments under U.S. Government Agency bonds are Mortgage-Backed Security (MBS) bonds and debentures traded on an active secondary market. MBS



## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

bonds are a security or debt obligation that represents a claim on the monthly cash flows from mortgage loans. They represent investments in securities that are backed by pools of high quality consumer or commercial mortgages guaranteed by a government agency or Government Sponsored Enterprises (GSE). Government Agency Debentures are also bonds traded on an active secondary market and represent a security or debt obligation of the issuer. While Standard & Poor's and Moody's does not specifically rate MBS, they carry an implied rating based on the high quality collateral that backs the bonds and the AA+ by Standard & Poor's of the GSE (FNMA/Fannie Mae/FreddieMac) that issues/guarantees them. At June 30, 2016, SDHC had \$79,870,330 invested in Agency MBS bonds.

**Fair Value Classification**

Management has determined that investments in LAIF and SDCIP are reported at net asset value and are not included in the fair value hierarchy categories.

Management has determined that Agency Bond investments and Certificates of Deposit are classified as Level 2 as there are no quoted market prices published. These investments are actively traded on a secondary market and thus a fair value is able to be determined using this secondary market value.

The following table summarized the valuation of SDHC's fair value measurements in accordance with authoritative guidance at June 30, 2016:

	Level 1	Level 2	Level 3	Total
MBS	\$ -	\$ 79,870,330	\$ -	\$ 79,870,330
Certificates of deposit	-	490,818	-	490,818
Total	\$ -	\$ 80,361,148	\$ -	\$ 80,361,148

**Note 4 - Investment Risk Factors**

There are many factors that can affect the value of investments. Some, such as credit risk, custodial risk, concentration of credit risk and market risk, may affect both equity and fixed income securities. Equity and debt securities respond to such factors as economic conditions, individual company earnings performance and market liquidity, while fixed income securities are particularly sensitive to credit risk and changes in interest rates. The investment policy of SDHC is to invest substantially all of its funds in fixed income securities, which limits SDHC's exposure to most types of risk.





## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Credit Risk**

Fixed income securities are subject to credit risk, which is the risk that an issuer will fail to pay interest or principal in a timely manner or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. Certain fixed income securities, including obligations of the U.S. Government or those explicitly guaranteed by the U.S. Government, are considered to have minimal credit risk. SDHC minimizes credit risk by limiting investments to those listed in its Investment Policy. In addition, SDHC pre-qualifies the financial institutions, broker/dealers, intermediaries and advisors with which SDHC will do business in accordance with the Investment Policy. Finally, SDHC diversifies the investment portfolio to minimize potential losses from any one type of security or issuer.

**Custodial Risk**

Custodial risk is the risk that, in the event of the failure of the custodian, the investments may not be returned. All bonds are purchased through SDHC's primary financial institution's clearing account in SDHC's name where they are all held in safekeeping.

The exposure of SDHC's debt securities to credit risk and custodial risk as of June 30, 2016 is as follows:

	Total fair value	Standard and Poor's Credit Rating			Not Provided
		AAA	AA	A	
Cash and cash equivalents					
Cash and cash equivalents	\$ 23,331,032	\$ -	\$ -	\$ -	\$ 23,331,032
Restricted cash and cash equivalents	4,095,554	-	-	-	4,095,554
Total cash and cash equivalents	<u>\$ 27,426,586</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,426,586</u>
Short-term investments					
Local Agency Investment Fund	\$ 11,045,441	\$ -	\$ -	\$ -	\$ 11,045,441
San Diego County Investment Pool	17,090,083	17,090,083	-	-	-
Other	24,900	24,900	-	-	-
Agency bonds	23,978,062	-	-	-	23,978,062
Certificate of deposits	490,818	-	-	-	490,818
Total short-term investments	<u>\$ 52,629,304</u>	<u>\$ 17,114,983</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,514,321</u>
Long-term investment securities:					
Agency bonds	\$ 55,892,268	\$ -	\$ -	\$ -	\$ 55,892,268
Certificate of deposit	2,450,000	-	-	-	2,450,000
Total long-term investments	<u>\$ 58,342,268</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,342,268</u>
* Implied credit rating					

**Concentration of Credit Risk**

Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing





## San Diego Housing Commission

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

SDHC to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. Investments issued or guaranteed by the U.S. Government and investments in external investment pools such as the California LAIF are not considered subject to concentration of credit risk.

The U.S. Government Agency securities in SDHC's portfolio include Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Federal Home Loan Bank (FHLB). Of the \$79,370,030 invested in Agency MBS and debentures as of June 30, 2016, all are issued either by FNMA, FHLB or FHLMC.

MBS are not rated by credit rating agencies. While the rating agencies do not specifically rate MBS, they carry an implied AA+ rating based on the collateral that backs the bond and the AA+ rating of the Agency that issues/guarantees them. MBS are not considered subject to concentration of credit risk.

SDHC may choose to maintain 100% of its investment portfolio in U.S. Treasury Bills, Notes, Bonds and collateralized certificates of deposit. Certificates of deposits are, according to SDHC's Investment Policy, to be collateralized at least 100% of the amount that is not federally insured. Securities pledged as collateral are held by a third party. Joint custody safekeeping receipts are held in the name of the depository institution, but pledged to SDHC. The security cannot be released, substituted or sold without the approval of SDHC. As of June 30, 2016, SDHC had \$2,940,818 invested in certificates of deposits. Of these certificates of deposits, all were covered under FDIC insurance limits.

#### **Market Risk**

Market risk is the risk that the value of an investment will change due to changes in the financial market. Changes in market conditions can increase Interest Rate Risk, Liquidity Risk and Reinvestment Risk.

**Interest Rate Risk** is the risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value. The terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes.

**Liquidity Risk** is the risk of being unable to liquidate an investment prior to maturity. Related to liquidity risk is the concept of marketability, or the ability to sell an instrument on short notice without incurring a meaningful loss in price.



## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Reinvestment Risk** is the risk that the proceeds from a fixed-income security cannot be reinvested at less than the same rate of return currently generated by that holding. This risk is common with securities that are callable.

In accordance with its Investment Policy, SDHC manages market risk by matching portfolio maturities to projected liabilities and monitoring the weighted average maturity of its portfolio. This is done by maintaining a portion of the portfolio in readily available funds and investing in securities with limited call features and an active secondary market. These measures ensure that appropriate liquidity is maintained in order to meet ongoing operations, maximize return and limit exposure to changing market conditions. SDHC's exposure to market risk as of June 30, 2016, is as follows:

	Total fair value	Investment maturities as of		
		Less than 3 months	4 - 12 months	1 - 5 years
Cash and cash equivalents				
Deposits	\$ 23,320,356	\$ 23,320,356	\$ -	\$ -
Petty cash	10,676	10,676	-	-
Total cash and cash equivalents	<u>\$ 23,331,032</u>	<u>\$ 23,331,032</u>	<u>\$ -</u>	<u>\$ -</u>
Restricted cash and cash equivalents	<u>\$ 4,095,554</u>	<u>\$ 4,095,554</u>	<u>\$ -</u>	<u>\$ -</u>
Short-term investments				
Local Agency Investment Fund	\$ 11,045,441	\$ 11,045,441	\$ -	\$ -
San Diego County Investment Pool	17,090,083	17,090,083	-	-
Other	24,900	24,900	-	-
Agency bonds	23,978,062	1,530,500	22,447,562	-
Certificates of deposit	490,818	245,238	245,580	-
Total short-term investments	<u>\$ 52,629,304</u>	<u>\$ 29,936,162</u>	<u>\$ 22,693,142</u>	<u>\$ -</u>
Long-term investments				
Agency bonds	\$ 55,892,268	\$ -	\$ -	\$ 55,892,268
Certificates of deposit	2,450,000	-	-	2,450,000
Total long-term investments	<u>\$ 58,342,268</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,342,268</u>



## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Note 5 - Accounts Receivable - Funding Sources**

At June 30, 2016, amounts due from funding sources consist of the following:

Source / Program	Amount
<b>Business</b>	
City of San Diego	\$ 10,258,976
<b>Total business</b>	<u>10,258,976</u>
<b>Federal</b>	
Moving to Work Demonstration (MTW)	463,513
Capital Fund	406,951
Community Development Block Grant (CDBG)	246,076
HOME Investment Partnerships (HOME)	237,948
Continuum of Care	181,898
Emergency Solutions Grant	179,314
Various	<u>52,304</u>
<b>Total federal</b>	<u>1,768,004</u>
<b>State</b>	
Various	<u>43,950</u>
<b>Total state</b>	<u>43,950</u>
<b>Total</b>	<u><u>\$ 12,070,930</u></u>

All amounts are expected to be collected in the next fiscal year.

**Note 6 - Notes, Mortgages and Interest Receivable**

Loans made by SDHC are of three types:

1. Notes requiring periodic payments of principal and interest with interest rates ranging from 0% to 10% and lengths of maturity ranging from 3 years to 65 years;
2. Deferred payment notes with interest rates ranging from 0% to 10% and lengths of maturity ranging from 3 to 65 years; and



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

3. Subsidy loans made to reduce the effective interest rate to recipients on loans made by a commercial bank.



## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

Notes, mortgages and interest receivable at June 30, 2016, consist of the following:

Borrower	Project Address	Interest Rate %	Maturity Date	Principal Amount
Arbor Terrace	3693-3741 Florida Street San Diego, CA 92104	4.8600	07/01/62	\$ 10,271,748
Steadfast Villa Nueva Lp	3604 Beyer Blvd. San Diego, CA 92173	3.0000	05/01/62	8,883,727
Mercado Cic, Lp	Cesar E. Chavez Parkway San Diego, CA 92113	5.0000	05/01/68	7,000,000
Florida Street Housing Assoc.	3783 - 3825 Florida Street San Diego, CA 92104	3.0000	02/01/67	6,965,583
City Heights Ten, L.p.	10 non-contiguous parcels San Diego, CA 92105	3.5600	03/31/69	6,608,919
Dawson Avenue Senior Apts	4321-52nd Street San Diego, CA 92115	2.0000	12/01/63	6,539,218
Delta Village Housing Ass	4316-4368 Delta Street San Diego, CA 92113	3.0000	05/01/36	6,100,000
Linc Arbor Village Apts	4914-4998 Logan Avenue San Diego, CA 92113	3.0000	05/01/67	5,460,000
Georgia Street, L.p.	4105 Georgia Street San Diego, CA 92104	3.0000	07/01/66	5,110,753
San Diego Commons, LP	6456 El Cajon Blvd. San Diego, CA 92115	3.0000	04/30/69	4,905,000
Mesa Verde Cic, Lp	7811 Mission Gorge Road San Diego, CA 92120	4.0000	06/30/73	4,800,000
Beyer Blvd Apts. Lp	3412-3466 Beyer Blvd. SEE NOTES San Diego, CA 92154	3.0000	10/22/59	4,200,000
Comm22 Senior Housing, LP	Commercial & 22nd St. San Diego, CA 92113	3.0000	05/01/69	4,200,000
Del Sol Apts. LP	Del Sol Apartments San Diego, CA 92154	3.0000	08/31/61	4,126,000
Alabama Manor Hsg Assoc.	3822-3836 Alabama Street San Diego, CA 92104	0.0000	12/31/63	3,793,128
Golden Age Garden Housing	740 South 36th Street San Diego, CA 92113	3.0000	12/31/67	3,661,000
Villa Harvey Mandel, L.p.	72 17th Avenue San Diego, CA 92101	5.6000	02/01/57	3,549,157
Nestor Family Housing Par	1150 Tesoro Grove Way San Diego, CA 92154-3114	5.6000	02/01/57	3,481,844
15th & Commercial, L.p.,	1506 Commercial Street San Diego, CA 92101	3.0000	01/01/66	3,463,813
Renaissance Sr Hsg-n Pk R	4330 30th Street San Diego, CA 92104	4.6500	04/12/59	3,453,334
Market Square Manor Assoc	525 14th Street San Diego, CA 92113	5.6000	03/01/57	3,340,364
Wakeland Vista Grande Apt	5391-5411-5425 Santa Margarita St San Diego, CA 92114	3.0000	05/01/67	2,967,000
34th Street Project, Llc,	4637 34th Street San Diego, CA 92116	3.0000	02/24/77	2,920,000
Affirmed Family Hsg Partn	2125-2155 Coronado Avenue San Diego, CA 92154	5.2000	06/30/35	2,904,206
Juniper Gardens, L.p.,	4251 Juniper Street San Diego, CA 92105	3.0000	12/31/68	2,839,132
Vietnam Veterans Of San D	Veterans Village San Diego, CA 92110	3.0000	05/29/72	2,759,924
Mesa Family Villas, L.p.,	2061-2073 Avenida Del Mexico San Diego, CA 92154	5.6000	05/01/57	2,603,113
Wjj Cic, L.p.,	327 S. Willie James Jones Ave. San Diego, CA 92113	4.0000	01/31/71	2,500,000
Amcal Mission Fund L.p.,	1815-1875 Hancock St San Diego, CA 92110	3.0000	01/01/68	2,498,730
Wakeland Atmosphere, L.p.	5th Avenue & Beech Street San Diego, CA 92101	4.0000	03/01/70	2,450,000
Talmadge Gateway Lp,	4744 -4748 El Cajon Blvd San Diego, CA 92115	3.0000	06/30/72	2,400,000
Housing Development Partn	1337-1345 Fifth Avenue San Diego, CA 92101	3.0000	02/28/68	2,365,284
Riverwalk Apartments, L.p	1194 Hollister St San Diego, CA 92154	3.0000	03/01/65	2,275,145
San Diego Fox Hollow L.p.	4366 Home Avenue San Diego, CA 92105	3.0000	04/01/32	2,200,000
Wakeland Village Green Apt	4140-4155 Bonillo Dr San Diego, CA 92115	3.0000	04/01/65	2,165,000
Hacienda Townhomes, Ltd.,	350 17th Street San Diego, CA 92101	4.5000	07/01/48	2,144,371
Winona Gardens Housing As	3810 Winona Avenue San Diego, CA 92105	3.0000	07/01/55	2,100,000
Palm Terrace Interfaith H	2885 Palm Avenue San Diego, CA 92154	3.0000	04/30/54	2,079,740
Mountain View Properties,	4066 Messina Drive San Diego, CA 92113	6.0000	04/01/33	2,065,897
Mission Terrace Associate	10210 San Diego Mission Road San Diego, CA 92108	3.0000	09/01/49	2,055,000
Pathfinders Of San Diego	2621-2625 University Avenue San Diego, CA 92104	3.0000	07/15/65	2,050,000
Terramar Cic, L.p.,	13481-13483 Silver Ivy Lane San Diego, CA	3.0000	05/01/66	2,035,000
Vietnam Veterans Of San D	4141 Pacific Highway San Diego, CA 92110	3.0000	05/01/75	2,000,806
Connections Housing Downt	1250 Sixth Avenue San Diego, CA 92101	3.0000	06/01/69	2,000,000
Trolley Residential Cic,	4981 Market Street San Diego, CA 92114	4.0000	06/30/72	1,811,321
Metro Villas Housing Part	4031-4081 39th Street San Diego, CA 92105	4.8500	02/01/58	1,795,813
Ywca Of San Diego County,	CONFIDENTIAL San Diego, CA 92109	0.0000	03/01/61	1,786,000
Imperial Urban Housing, L	1435 Imperial Ave. San Diego, CA 92101	3.0000	12/31/72	1,767,500
Townpeople, A Ca Nonprof	4242 - 4260 51st Street San Diego, CA 92115	3.0000	05/01/61	1,570,000
Chicano Federation,	5052 Wightman Street San Diego, CA 92105	3.0000	07/01/54	1,536,750
Casa Colina Lp,	5207 52nd Place San Diego, CA 92105	3.0000	02/01/59	1,516,662
Vietnam Veterans Of San D	4141 Pacific Highway San Diego, CA 92110	3.0000	08/01/77	1,491,566
Chicano Federation,	4420 Delta Street San Diego, CA 92113	3.0000	11/01/54	1,485,943
St. Stephens Housing Ptnr	5641 Imperial Avenue San Diego, CA 92114	4.7900	05/01/36	1,449,104
The Stratton Lp,	5765 Mount Alifan Drive San Diego, CA 92111	3.0000	06/20/55	1,437,877
Vietnam Veterans Of San D	4141 Pacific Highway San Diego, CA 92110	3.0000	07/01/70	1,437,054
Metropolitan Area Advts.	2001 - 2097 Newton Avenue San Diego, CA 92101	6.0000	12/01/47	1,425,000
Bolt Housing Partners Lp,	4010 - 4050 Parkhaven Ct. San Diego, CA 92113	3.0000	04/01/56	1,418,838
Logan Development L.p.,	4720-4768 Logan Ave. San Diego, CA 92113	6.0000	11/30/50	1,400,000
Housing Development Partn	827 C St. San Diego, CA 92101	3.0000	10/01/69	1,304,784
Chicano Federation,	5222 Trojan Avenue San Diego, CA 92115	3.0000	07/01/53	1,144,817



## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

Borrower	Project Address	Interest Rate %	Maturity Date	Principal Amount
Tachs Cove Apts Llc,	5288 El Cajon Blvd San Diego, CA 92115	3.0000	05/01/62	982,000
Affirmed Family Hsg Partn	2125-2155 Coronado Avenue San Diego, CA 92154	4.7900	06/30/35	951,497
Logan Square Housing Part	4742 Solola Avenue San Diego, CA 92113	3.0000	03/01/48	941,643
Sd Lgbt Community Center,	1640 Broadway San Diego, CA 92101	0.0000	11/01/60	934,000
Catholic Charities 9th &	798 Ninth Avenue San Diego, CA 92101	0.0000	10/31/58	927,500
Harbor View Associates L.	404-424 N. 47th Street San Diego, CA 92102	3.0000	04/01/34	900,000
Mayberry Townhomes,ca Lmt	4328-4490 Mayberry Street San Diego, CA 92113	2.6400	12/31/71	899,095
Carmel Valley/torrey Del	13875 Carmel Valley Road San Diego, CA 92130	3.0000	01/01/57	892,111
Urban Housing/grant Heigh	2651-2663 J Street San Diego, CA 92102	3.0000	02/01/57	867,279
Urban Council Development	4227 52nd St./ San Diego, CA 92115	3.0000	07/01/52	741,884
Lillian Place Lp,	1401 & 1437 J Street San Diego, CA 92101	3.0000	12/31/60	731,000
Vietnam Veterans Of San D	Veterans Village San Diego, CA 92110	3.0000	06/01/72	720,000
Bayview Cdc,	1440 - 1516 South 40th Street San Diego, CA 92113	3.0000	02/01/56	696,000
Vietnam Veterans Of San D	Veterans Village San Diego, CA 92110	3.0000	05/15/70	675,000
Hope Cdc,	4910 - 4920 Ocean View Blvd. San Diego, CA 92113	3.0000	12/22/48	647,056
South Bay Community Servi	135 Averil Road San Ysidro, CA 92173	3.0000	12/16/53	630,700
3137 El Cajon Boulevard L	3137 El Cajon Blvd San Diego, CA 92104	3.0000	12/31/63	600,000
Chicano Federation,	4033 33rd Street San Diego, CA 92104	3.0000	12/01/52	596,442
The Association For Commu	1851-1865 Titus Street San Diego, CA 92103	3.0000	10/20/58	572,781
Affirmed Family Hsg Partn	2125-2155 Coronado Avenue San Diego, CA 92154	4.7200	06/30/35	509,779
Comm22 Family Housing L.p	Commercial St & 22nd St. San Diego, CA 92113	3.0000	05/01/69	500,000
Santaluz Family Apts. Lp,	16775 Saintsbury Glen San Diego, CA 92130	3.0000	04/01/60	500,000
Total Major Loans				<u>206,486,732</u>
Home ownership loans (Under \$500,000)				51,652,798
Single-Family rehabilitation loans (Under \$500,000)				15,112,133
Development loans with rehab / acquisition (Under \$500,000)				5,218,640
Multi-Family rehabilitation loans (Under \$500,000)				<u>381,756</u>
Total Non-Major Loans				<u>72,365,327</u>
Total Major Loans and Total Non-Major Loans as of June 30, 2016 (Not Including Deferred Loans)				278,852,059
Allowance for Loan Losses				(3,173,730)
Allowance for Forgivable Loans				<u>(8,188,606)</u>
Total notes receivable at June 30, 2016				267,489,723
Deferred cumulative interest receivable at June 30, 2016				<u>37,730,636</u>
Total notes and interest receivable at June 30, 2016				<u>\$ 305,220,359</u>

Notes and mortgages receivable due in less than one year amounted to \$645,747 at June 30, 2016.

The changes in allowance for loan, interest losses and forgivable loans consist of the following:

Balance, July 1, 2015	Losses/ write-offs	Additions/ adjustments	Balance, June 30, 2016
<u>\$ 4,783,991</u>	<u>\$ (2,276,080)</u>	<u>\$ 8,854,425</u>	<u>\$ 11,362,336</u>

SDHC makes affordable housing loans to individuals in which the borrower is not required to repay the loan during the loan compliance period as long as the compliance covenants are met. The compliance periods differ by program between



### San Diego Housing Commission

#### NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

10 to 65 years. SDHC monitors the loan compliance. There is no cash disbursement associated with these loans and the loans do not bear interest. The notes are originated through noncash transactions having a net effect of zero to the Statement of Net Position, and SDHC does not record them in the Statement of Net Position. Any payment received during the compliance period is recorded as revenue in the fiscal year of receipt. Notes representing affordable housing loans outstanding as of June 30, 2016, total is \$58,727,731.



## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Note 7 - Capital Assets**

A summary of changes in capital assets for the year ended June 30, 2016 is as follows:

	Balance, June 30, 2015	Additions	Transfers / Retirements	Balance, June 30, 2016
Capital assets, not being depreciated				
Land	\$ 68,369,250	\$ -	\$ (287,675)	\$ 68,081,575
Construction in progress	2,267,262	6,072,672	(43,175)	8,296,759
Total capital assets, not being depreciated	70,636,512	6,072,672	(330,850)	76,378,334
Capital assets, being depreciated				
Buildings	98,468,109	-	-	98,468,109
Building improvements	33,581,403	2,426,699	-	36,008,102
Office furniture and equipment	4,347,152	280,976	(132,718)	4,495,410
Total capital assets, being depreciated	136,396,664	2,707,675	(132,718)	138,971,621
Less accumulated depreciation for:				
Buildings	(18,418,147)	(2,504,324)	-	(20,922,471)
Building improvements	(10,056,086)	(2,276,336)	-	(12,332,422)
Office furniture and equipment	(3,741,342)	(350,228)	131,516	(3,960,054)
Total accumulated depreciation	(32,215,575)	(5,130,888)	131,516	(37,214,947)
Total capital assets, being depreciated, net	104,181,089	(2,423,213)	(1,202)	101,756,674
Total capital assets, net	\$174,817,601	\$ 3,649,459	\$ (332,052)	\$178,135,008

The increase of \$6 million in construction in progress is primarily related to continued activity on the Scattered Sites and Park Crest projects that are expected to be completed in fiscal year 2017.

Depreciation expense for the year ended June 30, 2016 was \$5,130,888.





## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Note 8 - Prepaid Items and Other Assets****Prepaid Items and Other Current Assets**

As of June 30, 2016 prepaid and other items consisted of the following:

Prepaid insurance	\$ 86,911
Prepaid mortgage insurance	93,899
Prepaid software licenses	165,528
Prepaid other	28,468
Escrow deposits - mortgage insurance premiums	216,272
	<hr/>
Total prepaids and other	<u>\$ 591,078</u>

**Other Noncurrent Assets**

As of June 30, 2016 noncurrent items consisted of the following:

Loan fees, net	\$ 1,684,780
Rents receivable in excess of rent due	244,232
	<hr/>
	<u>\$ 1,929,012</u>

The financing costs associated with the LLC loans totaled \$2,119,833. Under guidance issued by the GASB, these fees would be expensed as incurred. However, as the LLCs are not governmental agencies, they follow the standards issued by the FASB. In accordance with these standards loan fees are capitalized and amortized over the life of the loan using the effective yield method.

For fiscal year 2016 amortization totaled \$75,285. Annual amortization expense for each of the next five years and thereafter subsequent to June 30, 2016 for the LLCs is as follows:

2017	\$ 76,074
2018	76,776
2019	77,379
2020	77,871
2021	78,236
Thereafter	<hr/> 1,298,444
Total	<u>\$ 1,684,780</u>



## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

Rent receivable in the amount of \$244,232 related to the straight lining of commercial rents is included as of June 30, 2016. For more information on commercial leases please see Note 10.

**Note 9 - Notes Payable**

A summary of notes payable at June 30, 2016 is as follows:

Type of Obligation	Interest Rate	Maturity Date	Balance, 6/30/2015	Additions	Payments	Balance, 6/30/2016	Due Within One Year
<u>Debts of the Commission</u>							
Key Bank Real Estate Capital - Smart Corner, Maya Linda	6.08%	2027	\$ 9,700,993	\$ -	\$ (1,570,228)	\$ 8,130,764	\$ 695,950
City of San Diego - Parker Kier	0.00%	2022	695,628	-	-	695,628	-
City of San Diego - Hotel Sandford	1.00%	2065	6,030,122	64,878	(14,934)	6,080,066	-
State of California - Housing Loan Conv Program 12-HLCP-0004	3.00%	2068	1,404,849	-	-	1,404,849	-
State of California - Housing Loan Conv Program 12-HLCP-0003	3.00%	2068	3,150,000	-	-	3,150,000	-
<u>Debts of the LLCs</u>							
Greystone Servicing Corp, Inc. - Belden SDHC FNMA, LLC	7.32%	2040	11,566,709	-	(174,658)	11,392,051	187,880
Greystone Servicing Corp, Inc. - Northern SDHC FNMA, LLC	7.32%	2040	10,149,035	-	(153,251)	9,995,785	164,853
Greystone Servicing Corp, Inc. - Central SDHC FNMA, LLC	7.32%	2040	13,153,375	-	(198,616)	12,954,758	213,653
PNC Bank, NA FHA - Southern SDHC FHA, LLC	3.76%	2046	23,222,212	-	(420,405)	22,801,808	436,487
PNC Bank, NA FHA - Northern SDHC FHA, LLC	3.76%	2046	16,244,624	-	(294,086)	15,950,539	305,336
PNC Bank, NA FHA - Central SDHC FHA, LLC	3.65%	2046	14,596,365	-	(268,112)	14,328,253	278,063
Total			<u>\$ 109,913,912</u>	<u>\$ 64,878</u>	<u>\$ (3,094,289)</u>	<u>\$ 106,884,501</u>	<u>\$ 2,282,222</u>

At June 30, 2016, the current portion of notes payable was \$2,282,222 and the noncurrent portion of notes payable was \$104,602,279.

In November 2011, SDHC entered into a loan agreement with GE Capital Financial Inc. to re finance the Smart Corner Building, which houses the administrative offices of SDHC. In September 2015, Key Bank Real Estate Capital took over as servicer of the loan. The term of the loan is 15 years, amortized over 25 years, with a fixed interest rate of 6.08% until November 2021, at which time the rate will convert to a variable rate. In November 2015, SDHC exercised the annual option to pay down the loan principal in the amount of \$945,841.

SDHC entered into a loan agreement with the Redevelopment Agency of the City of San Diego (Redevelopment Agency) on March 18, 2010, for the acquisition and rehabilitation of the Hotel Sandford. On January 12, 2012, the City Council adopted resolution number R-307238, designating the City to serve as the successor agency



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

for the former Redevelopment Agency; thus the obligation has changed from Redevelopment Agency to the City of San Diego. The loan is a forgivable loan, with a term of 55 years and 1% simple interest. The total approved loan amount is \$6,095,000, with the loan being fully disbursed as of June 30, 2016. The project incurred savings and the City's portion of the savings was returned to the City in the form of a payment on the loan. As of June 30, 2016, \$251,863 of cost savings were returned with \$236,929 applied to interest and \$14,934 to principal.

In May 2013, the two State of California loans were renegotiated through the Housing Loan Conversion Program and extended for 55 years to 2068. They now bear an interest rate of 3% with required annual interest payments and with residual receipt requirements.

On December 30, 2009, Belden SDHC FNMA LLC, Central SDHC FNMA LLC and Northern SDHC FNMA LLC entered into debt agreements with Greystone Servicing Corp. Inc. in the amount of \$37.1 million. The purpose of the debt agreements was to obtain financing towards acquiring over 350 affordable housing units in the City of San Diego. The FNMA loans were made to the LLCs, not SDHC. Each one of these loans is a nonrecourse obligation of the LLCs. Under the terms of the loan agreements, the LLCs agree to pay a fixed interest rate of 7.32% for the life of the loan through the maturity date of January 1, 2040.

On August 31, 2010, Northern SDHC FHA LLC and Southern SDHC FHA LLC entered into debt agreements with PNC Bank, N. A., and on September 20, 2010, Central SDHC FHA LLC entered into debt agreement with PNC Bank, N. A. for a combined total debt amount of \$58.2 million. The purpose of the debt agreements was to obtain financing towards acquiring additional affordable housing units in the City of San Diego. The FHA loans were made to the LLCs, not SDHC. Each one of these loans is a nonrecourse obligation of the LLCs. Under the terms of the loan agreements, the LLCs agree to pay a fixed interest rate not to exceed 4.0% for the life of the loan through the maturity dates of September 1, 2045 and October 1, 2045 for the Northern & Southern LLCs loans and the Central LLC loan, respectively.

The American Recovery and Reinvestment Act of 2009 created the new Build America Bond (BABs) program. State and local governments receive subsidy payments directly from the U.S. Treasury for a portion of their borrowing costs on Build America Bonds, equal to 35% of the total coupon interest paid less reductions in federal appropriations. The subsidy stream is paid for the full term of the bonds. The Belden SDHC FNMA LLC, Northern SDHC FHA LLC and Southern SDHC FHA LLC loans have been approved as qualified direct subsidy BABs loans. SDHC received subsidy payments of \$735,490 in fiscal year 2016.



## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

The projected annual principal and interest payment requirements for all of SDHC's notes payable are noted in the table below. These amounts include forgivable loans of \$695,628 and \$6,080,066, which are forgiven at maturity in 2022 and 2065, respectively. There was accrued interest of \$0 and \$74,681, respectively, as of June 30, 2016.

	Notes payable		
	Principal	Interest	Total
Year(s) ending June 30, 2017	\$ 2,282,222	\$ 4,948,685	\$ 7,230,907
2018	2,407,935	4,822,366	7,230,301
2019	2,541,161	4,688,496	7,229,657
2020	2,681,462	4,547,515	7,228,977
2021	2,832,045	4,396,198	7,228,243
2022-2026	16,249,966	19,423,503	35,673,469
2027-2031	14,818,687	15,431,200	30,249,887
2032-2036	19,462,667	10,763,780	30,226,447
2037-2041	21,211,182	4,673,345	25,884,527
2042-2046	11,762,257	1,039,405	12,801,662
2047-2069	10,634,917	6,847,089	17,482,006
Total	<u>\$ 106,884,501</u>	<u>\$ 81,581,582</u>	<u>\$188,466,083</u>



## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Note 10 - Lease Commitments****Lease Revenue**

SDHC receives revenue from long-term land leases and commercial tenants. Lease revenue is recognized on a straight line basis over the term of the lease. Land lease terms include annual payments ranging from \$1 to \$610,439 for periods of 1 to 55 years in addition to contingent payments based upon available surplus. SDHC also receives income from commercial leases at the Smart Corner building, Park Crest and Hotel Sandford. For fiscal year 2016, SDHC received land lease and other rental income of \$2,668,438 that comprised of the following:

Land leases	\$ 986,243
Commercial leases	1,109,737
Parking and other rental income	572,458
	<u>\$ 2,668,438</u>

Aggregate future minimum lease revenues are as follows:

Year(s) ending June 30, 2017	\$ 2,135,443
2018	2,140,940
2019	2,100,945
2020	1,676,081
2021	1,621,325
2022-2026	8,610,374
2027-2031	9,314,277
2032-2036	9,816,689
2037-2041	10,653,573
	<u>\$ 48,069,647</u>

**Operating Leases**

SDHC accounts for all lease arrangements as operating leases. SDHC does not hold any leases payable at June 30, 2016.

**Note 11 - Defined Contribution Pension Plan**

SDHC provides pension benefits for all its full-time employees through a defined contribution plan. The Plan is a qualified pension plan under Section 401 of the Internal Revenue Service (IRS) Code and is therefore exempt from all Federal



## San Diego Housing Commission

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

income and California franchise taxes. The Plan is an alternative to Social Security under the Omnibus Budget Reconciliation Act of 1991, and includes both a pension provision and a voluntary tax sheltered annuity provision under §401(a) (1) and §401(a) (4) of the IRS Code.

In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate on the first day of their employment. SDHC's contributions for each employee (and interest allocated to the employee's account) are fully vested after four years of continuous service. SDHC's contributions for, and interest forfeited by, employees who leave employment before four years of service are used to reduce SDHC's current-period contribution requirement.

The Plan is administered by SDHC, with outside recordkeeping performed by Transamerica. SDHC has the authority to establish and amend the provisions of the Plan including the contribution requirements with the approval of the Board of Commissioners. The Plan is audited by an outside firm, and a copy of the audit report can be obtained by contacting the San Diego Housing Commission at 1122 Broadway, Suite 300, San Diego, California 92101.

SDHC's covered payroll in fiscal year 2016 was \$18,513,155. SDHC made its required 14% contribution, in the amount of \$2,591,842 and plan members contributed \$137,688 for the fiscal year ended June 30, 2016.

#### **Note 12 - Deferred Compensation Plan**

SDHC offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457, *State and Local Government Deferred Compensation Plans*. The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, disability or an unforeseeable emergency.

SDHC contributes 1% of earnings for qualified employees. An additional employer match of up to a maximum of 1.5% is available for similarly qualified employees at a matching rate of one to one. SDHC made its required contribution in the amount of \$439,346 and plan members contributed \$866,447 for the fiscal year ended June 30, 2016.

SDHC funds the deferred compensation through investments in various mutual funds administered by Empower Retirement (formerly Great-West Life & Annuity Insurance Company). Since the plan is managed and assets are held in trust by a



## San Diego Housing Commission

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

third party administrator, the assets are not included in SDHC's basic financial statements. The assets held by the plan administrator had a market value of \$14,255,322 at June 30, 2016.

#### **Note 13 - Risk Management**

##### **Workers' Compensation Insurance**

SDHC is a member of the California Housing Workers' Compensation Authority (CHWCA), which is a self-insurance pool that provides workers' compensation insurance, including employer's liability coverage, to its members with limits of \$500,000 per occurrence. CHWCA also procures excess workers' compensation insurance coverage for all of its members, which provides additional coverage above the self-insurance pool's \$500,000 limit up to the statutory requirements.

CHWCA is a joint powers authority consisting of 33 public housing authorities, housing commissions, and redevelopment agencies organized under a joint powers agreement to fund a self-insurance program for workers' compensation. Each member has equal representation (one seat) on the Board of Directors. The Board elects a seven-member Executive Committee, with members sitting two-year terms, which has the responsibility for conducting the business of the joint powers authority. Day-to-day operations of CHWCA are carried out by Bickmore Risk Services, under contract to CHWCA.

Annual premiums for CHWCA members are approved by the Board of Directors and are determined each year based on the following components:

- Rates per \$100 of payroll for CHWCA's four class codes, as determined annually by CHWCA's independent actuary, are multiplied by each member's estimated payroll by class code to calculate the pure loss premium;
- An experience modification factor (ex-mod) is applied to each member's pure loss premium, causing total pure loss premium to change according to the pool's average ex-mod;
- An off-balance factor is applied proportionately to each member's pure loss premium to return total premium to the actuarially-determined total; and
- Each member is allocated their proportionate share of administrative costs, claims servicing, and excess insurance coverage premium.





## San Diego Housing Commission

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

If CHWCA is dissolved by a vote of three-quarters or more of its members, the remaining assets of the joint powers authority, after all premiums and assessments have been paid and final disposition of all claims has been determined, will be distributed to members in proportion to each member's cash contributions (including premiums paid and property contributed, less incurred losses) made during the life of CHWCA. Until dissolution, however, no member has identifiable equity.

#### **Property, General Liability and Other Liability Insurance**

SDHC retained the services of various brokers and direct insurers to provide coverage for other identified risks. Deductibles under the policies vary. Claims and deductibles payable were \$0 at June 30, 2016. The amount of claims has not exceeded the insurance coverage purchased; accordingly, no liability is reported for these claims. Settlements have not exceeded coverage for each of the past five fiscal years.

#### **Note 14 - Restricted Net Position**

SDHC's restricted net position totaled \$176,980,821 for the period ending June 30, 2016. Of the total amount, \$163,962,769 is related to HOME-funded notes receivable, while \$7,301,265 is related to Neighborhood Stabilization Program (NSP)-funded notes receivable and accrued interest receivable net of the related allowance for loan losses.

The HOME loans are made to qualified applicants using grant proceeds received by SDHC under the HOME Program provisions of the 1990 National Affordable Housing Act. These HOME loans are nonrecourse and are collateralized by a subordinated mortgage on the underlying property of the borrower. Any repayments received by SDHC on these loans (including principal and interest) are treated as program income and must be used for future HOME program purposes, including 10% that SDHC can retain to cover its administrative costs for HOME activities. As such, the net position associated with the HOME loans are treated as restricted net position because of the perpetual purpose restriction to continue to recycle these resources into eligible uses under the HOME program.

The NSP funds were granted under President Bush's economic stimulus plan under Housing Economic Recovery Act of 2008. These funds were made available to provide emergency assistance to state and local governments to acquire and redevelop foreclosed properties that might otherwise become source of abandonment and blight within their communities. These NSP loans made to individuals and not-for-profit organizations are nonrecourse and are collateralized by a subordinated mortgage on the underlying property of the borrower. Any





## San Diego Housing Commission

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

repayments received by SDHC on these loans (including principal and interest) are treated as program income and must be used for future NSP program purposes, including 10% that SDHC can retain to cover its administrative costs for NSP activities. As such, the net position associated with the NSP loans are treated as restricted because of the perpetual purpose restriction to continue to recycle these resources into eligible uses under the NSP program.

In addition to HOME and NSP grant funds, \$3,337,846 is restricted for the replacement reserves required by the debt obligations of the LLC's. The remaining restricted balance, amounting to \$2,378,941, consists of \$2,198,849 of Veterans Affairs Supportive Housing (VASH) reserves and \$180,092 of Family Unification Program (FUP) reserves. Both VASH and FUP's restricted balances are administered in accordance with Housing Choice Vouchers (HCV) requirements.

#### **Note 15 - Economic Dependency**

SDHC receives the majority of its funding from HUD. HUD is subject to the federal budget allocation process each year. For the fiscal year ended June 30, 2016, SDHC's original budget included \$212,391,368 of estimated HUD funding. A reduction in funding from HUD could significantly change the services provided by SDHC.

#### **Note 16 - Commitments and Contingencies**

##### **Grants**

SDHC has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. SDHC management believes such disallowances, if any, would not have a material effect on SDHC's financial statements.

##### **Loan Commitments**

SDHC has committed funds for loans and grants to various individuals and entities as of June 30, 2016. The amount of loans and grants SDHC has committed to fund, but has not funded as of June 30, 2016, is \$32,894,393.

##### **Lawsuits and Claims**

SDHC is subject to lawsuits and claims, which arise out of the normal course of its activities. In the opinion of management, based upon the opinions of legal counsel,



### San Diego Housing Commission

#### NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

the disposition of any and all such actions of which it is aware, will not have a material effect on the financial position of SDHC.

#### **Other Matters and Contingencies**

SDHC has continued to work with a retirement plan consultant to review compliance with all applicable law and regulations. During the course of this fiscal year it was determined that some discrepancies between the Plan document and operational execution existed. These items will be corrected through a Voluntary Compliance Program (VCP) submission that is expected to be filed in fiscal year 2017; however, is not expected to be responded to by the Internal Revenue Service until the following fiscal year. SDHC has reserved a contingency amount reflecting any anticipated fiscal impact of corrections identified under the VCP and that amount is not considered material to the overall financial statements.

#### **Note 17 - Affordable Housing**

The San Diego Affordable Housing Fund (AHF) was created by the San Diego City Council (City Council) on June 3, 2003, as a permanent and annually renewable source of revenue to help meet the housing needs of the City of San Diego's (City) lower-income households. The City Council expressed the purposes of the AHF in San Diego Municipal Code Chapter 9, Article 8, Division 5 (Code):

- Meet a portion of the need for housing that is affordable to households with very-low, low-, and median-incomes;
- Leverage every \$1 of City funds with \$2 of non-City subsidy capital funds;
- Support the City's Balanced Communities Policy by fostering a mix of family incomes in AHF assisted projects and dispersing affordable housing projects throughout the City;
- Preserve and maintain affordable rental and ownership housing; and
- Encourage private sector activities that advance these goals.

The AHF is composed of two funds: the Housing Trust Fund (HTF) and the Inclusionary Housing Fund (IHF).

#### **The Housing Trust Fund:**

Per Section 98.0504 of the Code, HTF funds may be used in any manner, through loans, grants or indirect assistance for the production and maintenance of assisted units and related facilities.



## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Inclusionary Housing Fund:**

The expenditure of IHF is governed by Section 98.0505 of the Code. Priority is given to the construction of new affordable housing stock. Monies may also be used for other programs if approved by City Council in the Annual Plan. SDHC monitors the revenue collected from each Community Planning Area and is responsible for reinvesting the funds. The IHF program requires that 10% of the new construction resident units be set aside as affordable housing for families earning no more than 65% of area median income (AMI) for rental units or 100% of AMI for for-sale properties.

The following table reflects the condensed statement of revenues, expenses and changes in net assets as of the fiscal year ended June 30, 2016 for IHF and HTF as required by the AHF Ordinance (San Diego Municipal Code Section 98.0515).

	Inclusionary Housing Fund	Housing Trust Fund
<b>Operating revenues</b>		
Fee revenue	\$ 137,292	\$ 150
Other revenue	506,914	26,972
Total operating revenue	644,206	27,122
<b>Operating expenses</b>		
Administrative expenses	575,439	324,370
General expenses	113,048	57,912
Grant expense	846,337	2,085,009
Total operating expenses	1,534,824	2,467,291
Operating loss	(890,618)	(2,440,169)
<b>Nonoperating revenues</b>		
Grant revenue	15,478,557	1,675,073
Interest income on notes receivable	842,105	990,781
Investment income	318,468	73,594
Total nonoperating revenues	16,639,130	2,739,448
Change in net assets	\$ 15,748,512	\$ 299,279



### San Diego Housing Commission

#### NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

##### **Note 18 - Blended Component Units**

In September 2007, SDHC received HUD approval to transition out of the Public Housing Program and to own and operate those same 134 properties (1,366 units) of rental housing. In October 2009, the Housing Authority of the City of San Diego approved SDHC's Finance Plan for the Acquisition of New Affordable Housing Units (see Housing Authority Report HAR 09-030). SDHC leveraged the equity in a portion of those properties through two financing sources, Fannie Mae and FHA.

A portion of SDHC's larger properties (33 properties) were leveraged with three loans from Fannie Mae under the conventional multifamily loan program and generated \$37,140,000 in total loan proceeds. Another portion of SDHC's portfolio (44 properties) was leveraged under FHA's 223(f) program and generated \$58,243,400 in total loan proceeds. The Fannie Mae loans closed in December 2009; two of the FHA loans closed in August 2010 and one FHA loan closed in September 2010. The loans were obtained by grouping the properties into six Limited Liability Companies. The groupings were primarily based on property location. Each of these LLC loans is nonrecourse.

On January 31, 2011, SDHC established its seventh wholly-owned LLC, Mercado SDHC LLC (Mercado). Mercado was created to acquire land for the Estrella del Mercado project which was subsequently ground leased to the developer of the project.

The following are the financial statements of the Blended Component Units of the San Diego Housing Commission for the year ended June 30, 2016:



## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

San Diego Housing Commission - Blended Component Units

Balance Sheet

June 30, 2016

	<b>Belden SDHC FNMA LLC</b>	<b>Northern SDHC FNMA LLC</b>	<b>Central SDHC FNMA LLC</b>	<b>Northern SDHC FHA LLC</b>	<b>Southern SDHC FHA LLC</b>	<b>Central SDHC FHA LLC</b>	<b>Mercado SDHC LLC</b>	<b>TOTAL</b>
<b><u>Assets</u></b>								
Current assets								
Operating cash	\$ 236,513	\$ 201,622	\$ 352,799	\$ 1,258,083	\$ 2,073,332	\$ 1,335,335	\$ -	\$ 5,457,684
Security deposit account	99,877	77,266	115,680	93,466	176,528	139,320	-	702,137
Restricted cash	324,944	177,773	158,774	829,986	768,688	1,077,682	-	3,337,847
Accounts receivable	7,304	5,259	45,274	17,978	16,401	45,221	1,800	139,237
Allowance for doubtful accounts	(582)	(356)	(4,257)	(1,775)	(1,376)	(4,131)	-	(12,477)
Prepaid mortgage insurance	-	-	-	25,609	37,206	31,084	-	93,899
Escrow account - MIP	-	-	-	62,454	89,568	50,750	-	202,772
<b>Total current assets</b>	<b>668,056</b>	<b>461,564</b>	<b>668,270</b>	<b>2,285,801</b>	<b>3,160,347</b>	<b>2,675,261</b>	<b>1,800</b>	<b>9,921,099</b>
Capital assets								
Land	2,226,253	2,984,726	3,217,419	3,690,974	3,682,655	3,852,360	29,897	19,684,284
Building	1,815,264	3,251,837	3,928,724	5,097,807	3,901,237	3,857,391	-	21,852,260
Building improvements	302,843	890,756	2,588,570	3,223,111	2,718,232	2,098,641	-	11,822,153
Accumulated depreciation	(444,680)	(813,223)	(1,902,516)	(1,870,145)	(1,881,700)	(1,407,211)	-	(8,319,475)
<b>Total capital assets</b>	<b>3,899,680</b>	<b>6,314,096</b>	<b>7,832,197</b>	<b>10,141,747</b>	<b>8,420,424</b>	<b>8,401,181</b>	<b>29,897</b>	<b>45,039,222</b>
Intangible assets								
Loan fees, net	109,643	98,916	186,558	392,681	538,155	358,826	-	1,684,779
<b>Total assets</b>	<b>\$ 4,677,379</b>	<b>\$ 6,874,576</b>	<b>\$ 8,687,025</b>	<b>\$ 12,820,229</b>	<b>\$ 12,118,926</b>	<b>\$ 11,435,268</b>	<b>\$ 31,697</b>	<b>\$ 56,645,100</b>



## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

San Diego Housing Commission - Blended Component Units

Balance Sheet - Continued

June 30, 2016

	Belden SDHC FNMA LLC	Northern SDHC FNMA LLC	Central SDHC FNMA LLC	Northern SDHC FHA LLC	Southern SDHC FHA LLC	Central SDHC FHA LLC	Mercado SDHC LLC	TOTAL
<b><u>Liabilities</u></b>								
Current liabilities								
Accounts payable	\$ 111,673	\$ 99,011	\$ 75,261	\$ 273,346	\$ 109,667	\$ 193,829	\$ 1,800	\$ 864,587
Related party payable	131,119	540,240	294,836	972,310	247,946	439,710	-	2,626,161
Accrued interest payable	69,492	60,974	79,024	49,978	71,446	43,582	-	374,496
First mortgage - current portion	187,880	164,853	213,653	305,336	436,487	278,063	-	1,586,272
Prepaid revenue	33,084	21,446	13,200	17,270	18,766	30,606	-	134,372
Tenant security deposits	99,877	77,266	115,679	93,466	176,527	139,319	-	702,134
<b>Total current liabilities</b>	<b>633,125</b>	<b>963,790</b>	<b>791,653</b>	<b>1,711,706</b>	<b>1,060,839</b>	<b>1,125,109</b>	<b>1,800</b>	<b>6,288,022</b>
Longterm liabilities								
First mortgage payable	11,204,170	9,830,931	12,741,105	15,645,202	22,365,321	14,050,191	-	85,836,920
<b>Total liabilities</b>	<b>11,837,295</b>	<b>10,794,721</b>	<b>13,532,758</b>	<b>17,356,908</b>	<b>23,426,160</b>	<b>15,175,300</b>	<b>1,800</b>	<b>92,124,942</b>
<b><u>Equity</u></b>								
Net investment in capital assets	(7,492,370)	(3,681,688)	(5,122,562)	(5,808,791)	(12,884,396)	(5,551,952)	29,897	(40,511,862)
Restricted net assets	324,943	177,773	158,774	829,987	768,688	1,077,682	-	3,337,847
Unrestricted net assets	7,511	(416,230)	118,055	442,125	808,474	734,238	-	1,694,173
<b>Total equity</b>	<b>(7,159,916)</b>	<b>(3,920,145)</b>	<b>(4,845,733)</b>	<b>(4,536,679)</b>	<b>(11,307,234)</b>	<b>(3,740,032)</b>	<b>29,897</b>	<b>(35,479,842)</b>
<b>Total liabilities and equity</b>	<b>\$ 4,677,379</b>	<b>\$ 6,874,576</b>	<b>\$ 8,687,025</b>	<b>\$ 12,820,229</b>	<b>\$ 12,118,926</b>	<b>\$ 11,435,268</b>	<b>\$ 31,697</b>	<b>\$ 56,645,100</b>



## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

San Diego Housing Commission - Blended Component Units

Statement of Operations

For the period ended June 30, 2016

	Belden SDHC FNMA LLC	Northern SDHC FNMA LLC	Central SDHC FNMA LLC	Northern SDHC FHA LLC	Southern SDHC FHA LLC	Central SDHC FHA LLC	Mercado SDHC LLC	TOTAL
<b>Income</b>								
Rental income	\$ 2,420,345	\$ 1,923,974	\$ 2,607,021	\$ 2,714,759	\$ 4,129,425	\$ 3,088,871	\$ -	\$ 16,884,395
Other income	276,432	26,240	34,008	235,476	345,476	28,288	9	945,929
<b>Total income</b>	<b>2,696,777</b>	<b>1,950,214</b>	<b>2,641,029</b>	<b>2,950,235</b>	<b>4,474,901</b>	<b>3,117,159</b>	<b>9</b>	<b>17,830,324</b>
<b>Expenses</b>								
Operating expenses								
Salaries and benefits	208,782	128,115	145,877	138,146	224,688	308,908	-	1,154,516
Management fee	121,931	97,504	131,277	137,619	209,608	155,824	-	853,763
Other admin	34,267	120,306	29,778	52,021	65,304	44,982	1,800	348,458
Utilities	174,484	156,715	225,782	232,977	372,560	310,304	-	1,472,822
Repairs and maintenance	251,489	275,350	376,062	404,536	364,918	408,191	-	2,080,546
Protective services	36,586	387	623	962	51,236	29,928	-	119,722
Insurance	39,358	17,072	20,556	24,757	39,100	26,539	307	167,689
Total operating expenses	<b>866,897</b>	<b>795,449</b>	<b>929,955</b>	<b>991,018</b>	<b>1,327,414</b>	<b>1,284,676</b>	<b>2,107</b>	<b>6,197,516</b>
Other expenses								
Interest expense	839,835	736,901	955,040	604,843	864,642	527,496	-	4,528,757
Mortgage insurance	-	-	-	72,274	103,318	64,895	-	240,487
Depreciation	69,397	129,610	297,506	328,426	325,912	254,494	-	1,405,345
Amortization	4,711	4,250	7,992	17,758	24,350	16,224	-	75,285
Bad debt expense	4,703	19,786	32,315	15,975	2,742	27,249	-	102,770
Other expenses	37,356	17,972	9,487	11,793	6,790	17,598	800	101,796
Total other expenses	<b>956,002</b>	<b>908,519</b>	<b>1,302,340</b>	<b>1,051,069</b>	<b>1,327,754</b>	<b>907,956</b>	<b>800</b>	<b>6,454,440</b>
<b>Total expenses</b>	<b>1,822,899</b>	<b>1,703,968</b>	<b>2,232,295</b>	<b>2,042,087</b>	<b>2,655,168</b>	<b>2,192,632</b>	<b>2,907</b>	<b>12,651,956</b>
<b>Net income</b>	<b>873,878</b>	<b>246,246</b>	<b>408,734</b>	<b>908,148</b>	<b>1,819,733</b>	<b>924,527</b>	<b>(2,898)</b>	<b>5,178,368</b>
Operating transfer in	2,040,520	1,437,880	1,878,875	1,810,819	2,160,529	1,300,875	2,899	10,632,397
Operating transfer out	(3,359,955)	(2,029,354)	(2,791,175)	(2,809,312)	(3,460,475)	(1,970,896)	-	(16,421,167)
<b>Net operating transfers</b>	<b>(1,319,435)</b>	<b>(591,474)</b>	<b>(912,300)</b>	<b>(998,493)</b>	<b>(1,299,946)</b>	<b>(670,021)</b>	<b>2,899</b>	<b>(5,788,770)</b>
<b>Net income (loss) net of financing sources</b>	<b>\$ (445,557)</b>	<b>\$ (345,228)</b>	<b>\$ (503,566)</b>	<b>\$ (90,345)</b>	<b>\$ 519,787</b>	<b>\$ 254,506</b>	<b>\$ 1</b>	<b>\$ (610,402)</b>



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Note 19 - Discretely Presented Component Units**

The discretely presented component units include the consolidated financial statements of Housing Development Partners of San Diego (HDP). The entities consolidated within HDP's financial statements include: HDP Mason Housing Corporation, Casa Colina, LP, Logan Development II, LP, HDP Broadway LP, HDP Churchill LP, HDP Parkier Kier, LLC, Logan Development Management LLC, HDP Broadway Management, HDP Churchill LLC and HDP Island Village, LLC. All intercompany transactions have been eliminated in consolidation. A detail of the consolidated financial statements of the discretely presented component units as of December 31, 2015 is presented below along with the Notes to the Financial Statements.

In July of 2015, HDP was selected by the Internal Revenue Service for an audit of its 2013 tax return. HDP received notification in October 2015 that the 501c(3) exemption was upheld and the returns were accepted as filed.





San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

San Diego Housing Commission - Discretely Presented Component Units  
Consolidating Schedule of Financial Position  
December 31, 2015

	Housing Development Partners of San Diego	HDP Mason Housing Corporation	Casa Colina, L.P.	Logan Development II, L.P.	HDP Broadway, L.P.	HDP Churchill, LP	HDP Parker Kier, LLC	Other Consolidated Companies	Eliminations	Consolidated
<b>Current Assets:</b>										
Cash and cash equivalents	\$ 3,550,415	\$ 57,842	\$ 240,528	\$ 184,939	\$ 2,044,797	\$ 2,190,288	\$ 120,607	\$ 67	\$ -	\$ 8,389,483
Tenant security deposits	-	8,531	23,741	25,652	47,985	-	15,473	-	-	121,382
Accounts receivable	88,210	-	38,871	1,620	117,167	-	633	52,500	(75,000)	224,001
Related party advances	33,940	-	-	-	-	-	-	10,118	(44,058)	-
Prepaid expenses	18,928	1,284	16,990	5,747	13,617	-	8,280	-	-	64,846
Deposits	10,100	-	-	-	-	-	-	-	-	10,100
Prepaid ground leases	-	-	10,798	-	164,706	-	-	-	-	175,504
Total Current Assets	<u>3,701,593</u>	<u>67,657</u>	<u>330,928</u>	<u>217,958</u>	<u>2,388,272</u>	<u>2,190,288</u>	<u>144,993</u>	<u>62,685</u>	<u>(119,058)</u>	<u>8,985,316</u>
<b>Noncurrent Assets:</b>										
Accounts receivable, net	1,579,404	-	-	-	-	-	-	-	(1,461,186)	118,218
Deposits	580	11,725	-	6,500	-	-	-	-	-	18,805
Note receivable	9,436,800	-	-	-	-	-	-	-	(9,436,800)	-
Interest receivable	380,690	-	-	-	-	-	-	-	(380,690)	-
Escrow deposits	-	-	19,527	5,953	73,613	-	-	-	-	99,093
Replacement reserves	-	44,661	268,896	80,722	-	-	21,461	-	-	415,740
Operating reserves	-	-	119,021	306,039	-	-	-	-	-	425,060
Operating expense reserve	-	27,716	-	-	-	-	-	-	-	27,716
Investment in partnerships	186,352	-	-	-	-	-	-	1,854	(146,591)	41,615
Prepaid ground leases, less current portion	-	-	561,482	-	3,582,736	-	-	-	-	4,144,218
Property and equipment, net	161,924	5,330,671	3,621,687	8,128,954	32,135,917	12,022,494	7,358	-	(15,109,191)	46,299,814
Capitalized costs, net	-	17,000	302,750	162,799	396,818	-	-	-	-	879,367
Total Noncurrent Assets	<u>11,745,750</u>	<u>5,431,773</u>	<u>4,893,363</u>	<u>8,690,967</u>	<u>36,189,084</u>	<u>12,022,494</u>	<u>28,819</u>	<u>1,854</u>	<u>(26,534,458)</u>	<u>52,469,646</u>
<b>TOTAL ASSETS</b>	<u>\$ 15,447,343</u>	<u>\$ 5,499,430</u>	<u>\$ 5,224,291</u>	<u>\$ 8,908,925</u>	<u>\$ 38,577,356</u>	<u>\$ 14,212,782</u>	<u>\$ 173,812</u>	<u>\$ 64,539</u>	<u>\$ (26,653,516)</u>	<u>\$ 61,454,962</u>



## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

San Diego Housing Commission - Discretely Presented Component Units  
 Consolidating Schedule of Financial Position - Continued  
 December 31, 2015

## LIABILITIES AND NET ASSETS

	Housing Development Partners of San Diego	HDP Mason Housing Corporation	Casa Colina, L.P.	Logan Development II, L.P.	HDP Broadway, L.P.	HDP Churchill, LP	HDP Parker Kier, LLC	Other Consolidated Companies	Eliminations	Consolidated
<b>Current Liabilities:</b>										
Accounts payable and accrued expenses	\$ 37,994	\$ 11,839	\$ 17,192	\$ 19,289	\$ 51,470	\$ 2,775	\$ 18,849	\$ 850	\$ (2,125)	\$ 158,133
Construction costs payable	-	-	-	-	2,364,245	3,802,426	-	-	-	6,166,671
Accrued interest payable	-	-	49,427	83,244	441,304	-	-	-	(380,690)	193,285
Ground lease payable	-	-	-	-	-	-	17,681	-	-	17,681
Related party payables	76,610	467,065	22,500	45,560	1,084,816	-	10,000	9,676	(1,633,998)	82,229
Prepaid revenue	-	1,605	564	1,244	1,135	-	1,062	-	-	5,610
Tenant security deposits	-	8,430	22,552	24,999	46,935	-	15,000	-	-	117,916
Current portion of notes payable	-	23,000	127,029	99,321	917,440	-	-	-	(741,190)	425,600
Total Current Liabilities	114,604	511,939	239,264	273,657	4,907,345	3,805,201	62,592	10,526	(2,758,003)	7,167,125
<b>Noncurrent Liabilities:</b>										
Deferred grant revenue	-	-	-	-	-	9,247,687	-	-	-	9,247,687
Accrued interest payable	-	561,930	-	1,318,673	-	16,635	-	-	-	1,897,238
Notes payable, less current portion	-	5,071,832	4,326,426	5,046,456	25,762,541	1,153,494	-	-	(8,695,610)	32,665,139
Total Noncurrent Liabilities	-	5,633,762	4,326,426	6,365,129	25,762,541	10,417,816	-	-	(8,695,610)	43,810,064
Total Liabilities	114,604	6,145,701	4,565,690	6,638,786	30,669,886	14,223,017	62,592	10,526	(11,453,613)	50,977,189
<b>Unrestricted Net Assets, Non-Controlling Interest</b>	-	-	658,606	2,270,125	7,907,516	-	-	8,370	-	10,844,617
<b>Unrestricted Net Assets</b>	15,332,739	(646,271)	(5)	14	(46)	(10,235)	111,220	45,643	(15,199,903)	(366,844)
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 15,447,343</u>	<u>\$ 5,499,430</u>	<u>\$ 5,224,291</u>	<u>\$ 8,908,925</u>	<u>\$ 38,577,356</u>	<u>\$ 14,212,782</u>	<u>\$ 173,812</u>	<u>\$ 64,539</u>	<u>\$ (26,653,516)</u>	<u>\$ 61,454,962</u>



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

San Diego Housing Commission - Discretely Presented Component Units  
Consolidating Schedule of Activities  
For the Year Ended December 31, 2015

	Housing Development Partners of San Diego	HDP Mason Housing Corporation	Casa Colina, L.P.	Logan Development II, L.P.	HDP Broadway, L.P.	HDP Churchill, LP	HDP Parker Kier, LLC	Other Consolidated Companies	Eliminations	Consolidated
<b>Revenue and Support:</b>										
Rental income	\$ 661	\$ 202,806	\$ 926,128	\$ 701,144	\$ 2,786,615	\$ -	\$ 394,765	\$ -	\$ (13,200)	\$ 4,998,919
Management fees	261,846	-	-	-	-	-	-	57,500	(60,000)	259,346
Developer fees	1,217,438	-	-	-	-	-	-	-	(1,085,743)	131,695
Resident services	-	-	72,410	-	-	-	-	-	-	72,410
Grant Revenue	-	-	-	-	-	-	-	42,113	-	42,113
Loan Forgiveness	-	23,000	-	-	-	-	-	-	-	23,000
Share of income from partnerships	149,841	-	-	-	-	-	-	(73)	(140,099)	9,669
Interest income	354,736	95	746	532	93	903	8	1,084	(353,065)	5,132
Miscellaneous income	2,020	-	-	-	-	-	-	-	-	2,020
Total Revenue and Support	1,986,542	225,901	999,284	701,676	2,786,708	903	394,773	100,624	(1,652,107)	5,544,304
<b>Expenses:</b>										
<b>Program Services</b>	272,235	356,404	772,079	892,109	2,841,389	-	206,842	-	(403,065)	4,937,993
Total Program Services	272,235	356,404	772,079	892,109	2,841,389	-	206,842	-	(403,065)	4,937,993
<b>Supporting Services:</b>										
Management and general	396,319	78,045	216,634	112,833	365,797	11,138	108,319	34,328	(23,200)	1,300,213
Total Supporting Services	396,319	78,045	216,634	112,833	365,797	11,138	108,319	34,328	(23,200)	1,300,213
Total Expenses	668,554	434,449	988,713	1,004,942	3,207,186	11,138	315,161	34,328	(426,265)	6,238,206
Change in Unrestricted Net Assets Before										
Loss Attributable to Non-Controlling Interest	1,317,988	(208,548)	10,571	(303,266)	(420,478)	(10,235)	79,612	66,296	(1,225,842)	(693,902)
Loss (Income) Attributable to Non-Controlling Interest	-	-	(10,570)	303,236	420,436	-	-	(3,158)	-	709,944
Change in Unrestricted Net Assets	1,317,988	(208,548)	1	(30)	(42)	(10,235)	79,612	63,138	(1,225,842)	16,042
Unrestricted Net Assets at Beginning of Year	14,014,751	(437,723)	(1)	44	(4)	-	44,758	(17,495)	(13,987,216)	(382,886)
Distributions	-	-	(5)	-	-	-	(13,150)	-	13,155	-
<b>UNRESTRICTED NET ASSETS AT END OF YEAR</b>	<b>\$ 15,332,739</b>	<b>\$ (646,271)</b>	<b>\$ (5)</b>	<b>\$ 14</b>	<b>\$ (46)</b>	<b>\$ (10,235)</b>	<b>\$ 111,220</b>	<b>\$ 45,643</b>	<b>\$ (15,199,903)</b>	<b>\$ (366,844)</b>



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Note 19 - Discretely Presented Component Units (Continued)**

**HDP - Note 1 - Organization and Significant Accounting Policies:**

**Organization**

The consolidated financial statements of the Corporation include the following entities:

**Housing Development Partners of San Diego**

Housing Development Partners of San Diego (HDP) is a California Nonprofit Corporation. Its mission is to preserve and increase affordable housing opportunities for low and moderate income residents.

HDP oversees the management of 980 rental units throughout the City of San Diego including Dawson Avenue Senior Apartments, LP, Island Palms Apartments, LP and Studio 15 Housing Partners, LLC.

The Corporation shares staff and Board of Directors with the San Diego Housing Commission (Commission). The Corporation's by-laws state that two of the Corporation's board members are also Commission board members and a third Corporation board member is the Chief Executive Officer of the Commission. Therefore, the Commission can exercise considerable influence over the Corporation.

**HDP Mason Housing Corporation**

HDP Mason Housing Corporation (HDP Mason) is a California Nonprofit Benefit Corporation formed by HDP in September 2011 to provide low and moderate income persons with affordable housing and facilities and services related to housing. HDP Mason owns and operates the Mason Hotel, a 17-unit rental housing project located in San Diego, California.

**Casa Colina, L.P.**

Casa Colina, L.P. (Casa Colina) was formed as a limited partnership under the laws of the State of California on February 18, 2004 for the purpose of constructing and operating a 75 unit low-income rental housing project located in San Diego, California. HDP has a .01% general partnership interest in the Partnership. All profits and losses are allocated .01% to HDP and 99.99% to the Limited Partner.



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Note 19 - Discretely Presented Component Units (Continued)**

**Logan Development II, L.P.**

Logan Development II, L.P. (Logan) was formed as a limited partnership under the laws of the State of California on October 29, 2012 to acquire, hold, invest in, secure financing for, construct, rehabilitate, develop, improve, maintain, operate, lease and otherwise deal with a rental housing project. The project consists of 54 units located in San Diego, California, and is currently operating under the name Knox Glen Townhomes. Logan Development Management, LLC has a .01% general partnership interest in the Partnership. All profits and losses are allocated .01% to Logan Development Management, LLC, 99.99% to the Investment Limited Partner and 0.00% to the Special Limited Partner.

**HDP Broadway, L.P.**

HDP Broadway, L.P. (HDP Broadway) was formed as a limited partnership under the laws of the State of California on July 22, 2013 to own, rehabilitate and operate a multifamily low income rental housing project located in San Diego, California operating under the name San Diego Square. HDP Broadway Management, LLC, the managing general partner, has a .01% general partnership interest in the partnership. All profits and losses were allocated .01% to HDP Broadway Management, LLC and 99.99% to the Investment Limited Partner and 0.00% to the Special Limited Partner.

**HDP Churchill, L.P.**

HDP Churchill, L.P. (HDP Churchill) was established as a limited partnership under the laws of the State of California on April 1, 2015 to acquire, own and operate a low income housing project. The project is located in San Diego, California operating under the name Hotel Churchill and is currently under rehabilitation. HDP Churchill, LLC, the managing general partner, has a .01% general partnership interest in the Partnership and HDP, the limited partner, has a 99.99% limited partnership interest. All profits and losses are allocated .01% to HDP Churchill, LLC and 99.99% to HDP.

**HDP Parker Kier, LLC**

HDP Parker Kier, LLC (HDP Parker Kier) was established as a limited liability company under the laws of the State of California on July 30, 2013 to acquire, operate, develop, manage, finance, refinance, hold and sell real property and participate in partnerships, corporations, limited liability companies, or other legal entities engaged in rental housing projects. HDP is the sole member of HDP Parker Kier, LLC.



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Note 19 - Discretely Presented Component Units (Continued)**

**Other Consolidated Companies**

**Logan Development Management, LLC**

Logan Development Management, LLC was established as a limited liability company under the laws of the State of California on October 25, 2012 to serve as the managing general partner of Logan Development II, L.P. to acquire, operate, develop, manage, finance, refinance, hold and sell real property and participate in partnerships, corporations, limited liabilities companies, or other legal entities engaged in rental housing projects. Logan Development Management, LLC owns 0.01% of Logan Development II, L.P. HDP is the 79% managing member of Logan Development Management, LLC.

**HDP Broadway Management, LLC**

HDP Broadway Management, LLC was established as a limited liability company under the laws of the State of California on July 22, 2013 to serve as the managing general partner of HDP Broadway, L.P. to acquire, operate, develop, manage, finance, refinance, hold and sell real property and participate in partnerships, corporations, limited liability companies, or other legal entities engaged in rental housing projects. HDP is the sole member of HDP Broadway Management, LLC.

**HDP Churchill, LLC**

HDP Churchill, LLC was established as a limited liability company under the laws of the State of California on August 26, 2013 to acquire, operate, develop, manage, finance, refinance, hold and sell real property and participate in partnerships, corporations, limited liability companies, or other legal entities engaged in rental housing projects. HDP is the sole member of HDP Churchill, LLC.

**HDP Island Village, LLC**

HDP Island Village, LLC was established as a limited liability company under the laws of the State of California on September 23, 2015 to serve as the managing general partner of East Village West LP to acquire, operate, develop, management, finance, refinance, hold and sell real property and participate in partnerships, corporations, limited liability companies, or other legal entities engaged in rental housing projects. HDP Island Village, LLC owns 0.04% of East Village West LP. HDP is the sole member of HDP Island Village, LLC.



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Note 19 - Discretely Presented Component Units (Continued)**

**Consolidated Financial Statements**

The accompanying consolidated financial statements of the Corporation include the accounts of HDP, HDP Mason, Casa Colina, Logan, HDP Broadway, HDP Churchill, HDP Parker Kier, Logan Development Management, LLC, HDP Broadway Management, LLC, HDP Churchill, LLC and HDP Island Village, LLC. All material intercompany transactions have been eliminated in consolidation.

**Method of Accounting**

The consolidated financial statements of the Corporation 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) and, accordingly, reflects all significant receivables, payables, and other liabilities.

**Financial Statement Presentation**

The consolidated financial statements present information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

**Significant Accounting Policies**

**Estimates**

The preparation of consolidated financial statements in conformity 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Note 19 - Discretely Presented Component Units (Continued)****Fair Value Measurements**

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). The Corporation had no financial instruments at December 31, 2015.

**Allowance for Doubtful Accounts**

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding accounts receivable. Management believes that all accounts receivable were fully collectible; therefore, no allowance for doubtful accounts receivable was recorded at December 31, 2015.

**Capitalization and Depreciation**

The Corporation capitalizes all expenditures in excess of \$2,000 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as unrestricted unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted. Absent donor stipulations regarding how long those donated assets must be maintained, the Corporation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Corporation reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line and accelerated methods over the estimated useful asset lives as follows:

Buildings and improvements	27.5 - 40 years
Furniture and equipment	5 - 7 years
Furnishings	5 years

Depreciation expense totaled \$1,398,411 for the year ended December 31, 2015.





San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Note 19 - Discretely Presented Component Units (Continued)**

Maintenance and repairs are charged to operations as incurred. Upon sale or disposition of property or equipment, the asset account is reduced by the cost and the accumulated depreciation account is reduced by the depreciation taken prior to the sale. Any resultant gain or loss is then recorded as income or expense.

**Impairment of Real Estate**

The Corporation reviews its property for impairment whenever events and changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted net cash flows expected to be generated by the property and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of real estate exceeds the fair value of such property. There were no impairment losses recognized in 2015.

**Amortization**

Capitalized costs are amortized over the term of the related assets using the straight-line method. Amortization totaled \$32,835 for the year ended December 31, 2015.

**Related Party Payables**

Related party payables consist of staff charges payable to the Commission and Partner's fees for Casa Colina, Logan and HDP Broadway. Related party payables are noninterest-bearing, due upon demand and totaled \$82,229 at December 31, 2015.

**Prepaid Revenue**

Prepaid revenue is defined as income received prior to the performance or to which the income is earned and is recorded as a liability. Prepaid revenue is reduced and recorded as income as the income is earned. Advance receipts of rental income are deferred or classified as liabilities until earned.

**Deferred Grant Revenue**

Government grants related to the acquisition of assets are recognized initially as deferred grant revenue when there is reasonable assurance that the Corporation will comply with the conditions associated with the grant. Grant revenue is recognized in the statement of activities on a systematic basis over the useful life of the asset. Deferred grant revenue totaled \$9,289,800 at December 31, 2015.



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Note 19 - Discretely Presented Component Units (Continued)**

**Tenant Security Deposits**

Tenant security deposits are held in separate bank accounts in the name of HDP Mason, Casa Colina, Logan, HDP Broadway and HDP Parker Kier. These funds are restricted to the extent of the tenant security deposit liability totaling \$117,916 at December 31, 2015.

**Revenue Recognition**

Rental revenue attributable to residential leases is recorded when due from residents, generally upon the first day of each month. Leases are for periods of up to one year, with rental payments due monthly. Other revenue includes fees for late payments, cleaning, damages, laundry facilities and other charges and is recorded when earned. Developer fees are recognized when earned based on collectability and performance of the project.

**Housing Assistance Payments Contract**

Casa Colina entered into a housing assistance payment contract with the Department of Housing and Urban Development (HUD). Contract #CA160006009 expires November 30, 2016, and Casa Colina has requested and expects an extension of the contract. The amount earned on the contract totaled \$653,060 for the year ended December 31, 2015 and is included in rental income.

HDP Mason entered into a housing assistance payment contract with the San Diego Housing Commission in May 2013. The contract expires May 14, 2023 with a renewal option. The amount earned on the contract totaled \$135,647 for the year ended December 31, 2015 and is included in rental income.

**Allocated Expenses**

Expenses by function have been allocated among supporting services classifications on the basis of internal records and estimates made by the Corporation's management.



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Note 19 - Discretely Presented Component Units (Continued)**

**Income Taxes**

HDP and HDP Mason are public charities and are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. HDP and HDP Mason believe that they have appropriate support for any tax positions taken, and as such, do not have any uncertain tax positions that are material to the financial statements. HDP and HDP Mason are not private foundations.

HDP and HDP Mason's Return of Organization Exempt from Income Tax for the years ended December 31, 2015, 2014, 2013, and 2012 are subject to examination by the Internal Revenue Service and State taxing authorities, generally three to four years after the returns were filed.

Casa Colina, Logan, HDP Broadway and HDP Churchill were formed as limited partnerships, HDP Parker Kier, Logan Development Management, LLC, HDP Broadway Management, LLC, and HDP Churchill, LLC and HDP Island Village, LLC were established as limited liability companies under the laws of the State of California. Casa Colina, Logan, HDP Broadway, HDP Churchill, HDP Parker Kier, Logan Development Management, LLC, HDP Broadway Management, LLC, HDP Churchill, LLC and HDP Island Village, LLC believe that they have appropriate support for any tax positions taken, and as such, do not have any uncertain tax positions that are material to the financial statements. No provisions or benefit for income taxes has been included in these consolidated financial statements since taxable income (loss) passes through to, and is reportable by, the partners and members individually.

Casa Colina, Logan, HDP Broadway, HDP Churchill, HDP Parker Kier, Logan Development Management, LLC, HDP Broadway Management, LLC, HDP Churchill, LLC and HDP Island Village, LLC's tax returns for the years ended December 31, 2015, 2014, 2013 and 2012 are subject to examination by the Internal Revenue Service and State taxing authorities, generally three to four years after the returns were filed.

**Concentrations**

The Corporation maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Corporation has not experienced any losses in such accounts. The Corporation believes it is not exposed to any significant credit risk on cash and cash equivalents.



## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Note 19 - Discretely Presented Component Units (Continued)**

HDP, HDP Mason, Casa Colina, Logan, HDP Broadway and HDP Parker Kier's operations are concentrated in the multi-family real estate market. In addition, HDP Mason and Casa Colina operate in a heavily regulated environment. The operations of HDP Mason and Casa Colina are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, California Housing Finance Agency (CalHFA) and HUD. Such administrative directives, rules and regulations are subject to change by an act of congress or an administrative change mandated by CalHFA and HUD. Such changes may occur with little notice or inadequate funding to pay for the related costs, including the additional administrative burden, to comply with a change.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Corporation considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

**Subsequent Events**

The Corporation has evaluated subsequent events through June 15, 2016, which is the date the financial statements are available for issuance, and concluded that there were no events or transactions that needed to be disclosed except as disclosed in Note 13.

**HDP Note 2 - Accounts Receivable:**

Accounts receivable consist of the following at December 31, 2015:

**Related Parties:**

Studio 15 Housing Partners, LLC	\$ 118,218
Dawson Avenue Senior Apartments, LP	19,494
	<hr/>
Subtotal	137,712
	<hr/>



## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Note 19 - Discretely Presented Component Units (Continued)****Other:**

HDP Broadway property tax refund	140,966
Resident services	37,384
HDP Parker Kier administrative fee	14,700
Management fees	7,500
Rent receivable	3,742
Other receivables	215

Subtotal	204,507
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Total Accounts Receivable, Net	\$ 342,219
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**Financial Statement Presentation:**

Current	\$ 224,001
Noncurrent	118,218

Total	\$ 342,219
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**HDP - Note 3 - Escrow Deposits:****Casa Colina**

Restricted funds are held by Red Mortgage Capital, Inc. to be used for the payment of mortgage and property insurance. The annual activity is summarized as follows for the year ended December 31, 2015:

Balance at Beginning of Year	\$ 15,795
Add: Monthly deposits	39,239
Less: Withdrawals:	
Mortgage insurance	(14,772)
Property Insurance	(20,735)
Balance at End of Year	\$ 19,527



## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Note 19 - Discretely Presented Component Units (Continued)****Logan**

Restricted funds are held by JP Morgan Chase Bank, N.A. to be used for the payment of property taxes and insurance. The annual activity is summarized as follows for the year ended December 31, 2015:

Balance at Beginning of Year	\$	4,653
Add: Initial deposit		11,592
Monthly deposits		609
Less: Insurance		(9,743)
Property Insurance		(1,158)
		<hr/>
Balance at End of Year	\$	<u>5,953</u>

**HDP Broadway**

Restricted funds are held by Berkadia Commercial Mortgage to be used for the payment of mortgage and property insurance. The annual activity is summarized as follows for the year ended December 31, 2015:

Balance at Beginning of Year	\$	42,506
Add: Initial deposit		-
Monthly deposits		81,020
Insurance claim		48,799
Less: Property insurance		(53,997)
Vendor reimbursement from insurance claim		(22,434)
Authority administrative fee		(22,281)
		<hr/>
Balance at End of Year	\$	<u>73,613</u>



## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Note 19 - Discretely Presented Component Units (Continued)****HDP - Note 4 - Replacement Reserves:****HDP Mason**

HDP Mason is required to establish and maintain a replacement reserve in the initial amount of \$17,000 with the proceeds of the CalHFA mortgage payable commencing on the CalHFA loan closing date. The reserve is held by HDP Mason and is required to be funded in an annual amount of \$8,500. Expenditures are subject to the supervision and approval of CalHFA. The annual activity is summarized as follows for the year ended December 31, 2015:

Balance at Beginning of Year	\$ 36,141
Add: Monthly deposits	8,500
Interest income	20
	<hr/>
Balance at End of Year	<u><u>\$ 44,661</u></u>

**Casa Colina**

Casa Colina is required to maintain a replacement reserve account in accordance with the partnership and regulatory agreements. Restricted funds are held by Red Mortgage Capital, Inc. to be used for replacement of property with the approval of HUD. The annual activity is summarized as follows for the year ended December 31, 2015:

Balance at Beginning of Year	\$ 237,640
Add: Monthly deposits	14,847
Interest income	83
Additional deposits	16,326
	<hr/>
Balance at End of Year	<u><u>\$ 268,896</u></u>



## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Note 19 - Discretely Presented Component Units (Continued)****Logan**

Logan is required to maintain a replacement reserve account in the initial amount of \$54,000 in accordance with the partnership agreement and the promissory notes payable with the Housing Authority of the City of San Diego. Logan is required to deposit \$18,900 annually from cash flow, into the replacement reserve. The replacement reserve is held by JP Morgan Chase Bank, N.A. and Logan. The annual activity is summarized as follows for the year ended December 31, 2015:

Balance at Beginning of Year	\$	65,241
Add: Monthly deposits		18,900
Interest		74
Less: Withdrawals		<u>(3,493)</u>
Balance at End of Year	\$	<u><u>80,722</u></u>

**HDP Broadway**

HDP Broadway is required to establish and maintain a replacement reserve in accordance with the partnership agreement in the initial amount of \$156,000 with the proceeds of the limited partner's contribution. The reserve is required to be funded in an annual amount of \$56,500. Withdrawals are subject to the consent of the Special Limited Partner. The replacement reserve had not been funded at December 31, 2015.

**HDP Parker Kier**

HDP Parker Kier is required to maintain a replacement reserve account in accordance with the ground lease with the San Diego Housing Commission and is to be funded in an annual amount of \$9,900, as defined. The annual activity is summarized as follows for the year ended December 31, 2015:

Balance at Beginning of Year	\$	11,553
Add: Monthly deposits		9,900
Interest income		<u>8</u>
Balance at End of Year	\$	<u><u>21,461</u></u>





## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Note 19 - Discretely Presented Component Units (Continued)****HDP - Note 5 - Operating Reserves:****Casa Colina**

Casa Colina is required to maintain an operating reserve account in accordance with the partnership agreement. The annual activity is summarized as follows for the year ended December 31, 2015:

Balance at Beginning of Year	\$ 118,399
Add: Interest income	<u>622</u>
Balance at End of Year	<u><u>\$ 119,021</u></u>

**Logan**

Logan is required to fund an operating reserve with limited partner contributions in an initial amount of \$305,236 at conversion to the permanent loan. The annual activity is summarized as follows for the year ended December 31, 2015:

Balance at Beginning of Year	\$ 305,582
Add: Interest income	<u>457</u>
Balance at End of Year	<u><u>\$ 306,039</u></u>

**HDP Broadway**

HDP Broadway is required to fund an operating reserve in accordance with the partnership agreement in an initial amount of \$1,161,335. The operating reserve had not been funded at December 31, 2015.



## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Note 19 - Discretely Presented Component Units (Continued)****HDP - Note 6 - Operating Expense Reserve:****HDP Mason**

HDP Mason is required to establish and maintain an operating expense reserve in the initial amount of \$27,440 with the proceeds of the CalHFA mortgage payable. The reserve is to cover shortfalls in unit income available for payment of approved operating expenses. The annual activity is summarized as follows for the year ended December 31, 2015:

Balance at Beginning of Year	\$	27,641
Add: Interest income		<u>75</u>
Balance at End of Year	\$	<u><u>27,716</u></u>

**HDP - Note 7 - Investment in Partnerships:**

The Corporation owns a general partner interest in limited partnerships accounted for using the equity method. The following are the balances in the Corporation's partnership capital accounts at December 31, 2015:

Dawson Avenue Senior Apartments, LP	\$	41,072
East Village West, LP		1,887
Studio 15 Housing Partners, LLC		<u>(1,344)</u>
Total Investment in Partnerships	\$	<u><u>41,615</u></u>

The Corporation provided management services to these and other entities for which it earned the following amounts for the year ended December 31, 2015:

Island Palm Apartments, LP	\$	147,155
East Village West, LP		27,500
Studio 15 Housing Partners, LLC		20,261
Dawson Avenue Senior Apartment, LP		19,494
Other management fees		<u>44,936</u>
Total Management Fees	\$	<u><u>259,346</u></u>



## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Note 19 - Discretely Presented Component Units (Continued)****HDP - Note 8 - Property and Equipment:**

Property and equipment consist of the following at December 31, 2015:

Land	\$	1,655,329
Buildings and improvements		36,028,869
Furniture and equipment		1,033,776
Furnishings		96,463
Construction in progress		<u>12,183,982</u>
Subtotal		50,998,419
Less: Accumulated depreciation		<u>(4,698,605)</u>
Total Property and Equipment, Net	\$	<u><u>46,299,814</u></u>

Interest totaling \$294,786 was capitalized and is included in construction in progress for the year ended December 31, 2015.

**HDP - Note 9 - Capitalized Costs:**

The costs incurred to obtain financing of HDP Mason and Casa Colina have been capitalized and are being amortized as described below at December 31, 2015:

	Amortization Period	
Financing fees	30-55 years	\$ 956,748
Tax credit fees	10 years	<u>141,833</u>
Subtotal		1,098,581
Less: Accumulated amortization		<u>(219,214)</u>
Capitalized Costs, Net		<u><u>\$ 879,367</u></u>



## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Note 19 - Discretely Presented Component Units (Continued)****HDP - Note 10 - Notes Payable:**

Notes payable consist of the following at December 31, 2015:

**HDP Mason**

Note payable is held by the San Diego Housing Commission in the original amount of \$2,365,284. The note bears interest at 3% per annum. Beginning May 1, 2014 and annually on May 1 of each year thereafter, principal and interest are due and payable from 47.8% of "residual receipts" as defined in the loan agreement through February 2068. The note is secured by a deed of trust on the Mason Hotel. Accrued interest totaled \$257,277 at December 31, 2015.

\$ 2,365,283

Note payable is held by Civic San Diego, the Successor Agency to the former Redevelopment Agency of the City of San Diego in the original amount of \$1,318,964. The note bears interest at 5% per annum. Principal and interest are due and payable from 26.6% of "residual receipts" each operating year as defined in the loan agreement note through May 2057. The note is secured by a deed of trust on the Mason Hotel. Accrued interest totaled \$159,414 at December 31, 2015.

1,318,964

Note payable is held by California Housing Finance Agency in the original amount of \$1,180,727. The note bears interest at 3% per annum. Annual payments of principal and interest are payable from 23.9% of the Development's "residual receipts," as defined in the loan agreement through December 2066. The note is secured by a deed of trust on the Mason Hotel. Accrued interest totaled \$120,235 at December 31, 2015.

1,180,727

Note payable is held by the San Diego Housing Commission in the original amount of \$226,000. The note bears interest at 3% per annum. Annual payments of principal and interest are payable only from 1.7% of "residual receipts," as defined in the loan agreement through May 2057. The note is secured by a deed of trust on the Mason Hotel. Accrued interest totaled \$25,004 at December 31, 2015.

68,858



## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Note 19 - Discretely Presented Component Units (Continued)**

Note payable is held by the San Diego Housing Commission in the original amount of \$230,000. The note is noninterest-bearing. The note shall be incrementally forgiven beginning May 2013 at 10% per year provided the Corporation has complied with all provisions of the note. The note is secured by a deed of trust on the Mason Hotel. Forgiveness of debt totaled \$23,000 for the year ended December 31, 2015.

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161,000

Total HDP Mason

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5,094,832
**Casa Colina**

Note payable is held by Red Mortgage Capital, Inc. in the original amount of \$3,465,000. Monthly payments of \$19,018 including principal and interest at 5.68% are due through February 1, 2039. The note is secured by a deed of trust on Casa Colina. Accrued interest totaled \$13,901 at December 31, 2015.

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2,936,793

Note payable is held by the San Diego Housing Commission in the original amount of \$1,600,000. The note bears interest at 3% per annum. Annual payments of principal and interest are payable only from 50% of "residual receipts," as defined in the loan agreement through February 2059. The note is secured by a deed of trust on Casa Colina. Accrued interest totaled \$35,526 at December 31, 2015.

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1,516,662

Total Casa Colina

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4,453,455
**Logan**

The note payable which was originated in November 2012, is held by the Housing Authority of the City of San Diego and serviced by JP Morgan Chase Bank, N.A. in the original amount of \$5,300,000. The note bears interest at a fixed rate of 5.58% and is payable in monthly installments of principal and interest through February 2032. The note is secured by a deed of trust on Knox Glen Townhomes. Accrued interest totaled \$15,515 at December 31, 2015.

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3,228,977



## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Note 19 - Discretely Presented Component Units (Continued)**

Mortgage note is held by the San Diego Housing Commission in the original amount of \$1,400,000 was originated on November 30, 1995 and bears interest at 6% per annum. Payments of principal and interest are payable annually from residual receipts, as defined in the note. Principal and accrued interest are due November 20, 2050. The note is secured by a deed of trust on Knox Glen Townhomes. Accrued interest totaled \$1,318,807 at December 31, 2015.

1,400,000

Mortgage note is held by Civic San Diego, the Successor Agency to the former Redevelopment Agency of the City of San Diego in the original amount of \$150,000 was originated on December 1, 1995. The note bears interest at 3% per annum. Principal and accrued interest are due in December, 2050. The note is secured by a deed of trust on Knox Glen Townhomes. Accrued interest totaled \$62,318 at December 31, 2015.

150,000

Total Logan

4,778,977

**HDP Broadway**

Multifamily note payable to the Housing Authority of the City of San Diego with a maximum principal sum of \$17,825,000 was originated on November 25, 2014. The note is being serviced by Berkadia Commercial Mortgage and bears interest at 4.49%. The note is payable in monthly installments of principal and interest of \$84,248 through maturity on December 1, 2044. The note is secured by a deed of trust on San Diego Square. Accrued interest totaled \$65,891 at December 31, 2015.

17,609,981

**HDP Churchill**

Note payable is held by the San Diego Housing Commission in the original amount of \$3,800,000. The note bears interest at 3% per annum. Annual payments of principal and interest are payable only from 44% of residual receipts as defined in the loan agreement through August 31, 2071. The note is secured by a deed of trust on Hotel Churchill. Accrued interest totaled \$14,085 at December 31, 2015.

253,494



## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Note 19 - Discretely Presented Component Units (Continued)**

Note payable is held by Civic San Diego in the original amount of \$3,000,000. The note bears interest at 3% per annum. Annual payments of principal and interest are payable only from 35% of residual receipts as defined in the loan agreement through April 24, 2070. The note is secured by a deed of trust on Hotel Churchill. Accrued interest totaled \$2,550 at December 31, 2015.

900,000

Note payable is held by California Housing Finance Agency in the original amount of \$1,800,000. The note bears interest at 3% per annum. Annual payments of principal and interest are payable from 21% of the Development's residual receipts as defined in the loan agreement through April 1, 2070. The note is secured by a deed of trust on the Hotel Churchill. The note had not been funded at December 31, 2015.

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Subordinate note payable is held by the San Diego Housing Commission in the original amount of \$2,306,609. The note bears interest at 3% per annum. Annual payments of principal and interest are payable only from 44% of residual receipts as defined in the loan agreement through August 31, 2071. The note is secured by a deed of trust on Hotel Churchill. The note had not been funded at December 31, 2015.

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Total HDP Churchill	1,153,494
Total Notes Payable	33,090,739
Less: Current Portion	(425,600)
Notes Payable, Net of Current Portion	<u>\$ 32,665,139</u>

The future principal payments on the notes payable for each of the next five years and thereafter subsequent to December 31, 2015 are as follows:

2016	\$ 425,600
2017	378,487
2018	396,225
2019	414,859
2020	434,435
Thereafter	<u>31,041,133</u>
Total	<u>\$ 33,090,739</u>



## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Note 19 - Discretely Presented Component Units (Continued)****HDP - Note 11 - Ground Leases:****Casa Colina**

Casa Colina entered into a ground lease with the San Diego Housing Commission on February 18, 2004. The lease agreement is for the term of 65 years with monthly rent of \$375 plus additional rent in the amount by which 2 1/4% of the gross rents received for the prior month exceeds \$375. Casa Colina prepaid additional rent of \$700,000, as defined in the agreement during the year ended December 31, 2006. During this term, the property is required to be used exclusively as a residential apartment building containing 75 units of affordable rental housing for low income seniors. Casa Colina is responsible for all real estate taxes and maintenance of any improvements during the term of the lease. The ground lease expense totaled \$32,470 for the year ended December 31, 2015.

**HDP Broadway**

HDP Broadway entered into a ground lease with the City of San Diego effective November 25, 2014. The lease agreement is for the term of 65 years with a one-time payment of \$4,000,000 which was paid in 2014 and annual rent of 4½% of gross revenue derived from residential operations on the premises, payable in arrears within 30 days of the end of each lease year, as defined in the agreement. In addition to the base rent, HDP Broadway shall pay the City supplemental rent as defined in the agreement. During this term, the property is required to be used exclusively as a residential apartment building containing 156 units of affordable housing for low income seniors. The lease also allows for the use of commercial space. HDP Broadway is responsible for all real estate taxes and maintenance of any improvements during the term of the lease. The prepaid ground lease totaled \$3,747,442 at December 31, 2015. The ground lease expense totaled \$383,461 for the year ended December 31, 2015.

	Casa Colina	HDP Broadway	Total
<b><u>Financial Statement Presentation:</u></b>			
	—		
Current	\$ 10,798	\$ 164,706	\$ 175,504
Noncurrent	561,482	3,582,736	4,144,218
Total	<u>\$ 572,280</u>	<u>\$ 3,747,442</u>	<u>\$ 4,319,722</u>





## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Note 19 - Discretely Presented Component Units (Continued)****HDP Parker Kier**

HDP Parker Kier entered into a ground lease with the San Diego Housing Commission on September 1, 2013. The lease agreement is for the term of 10 years with an annual rent of 4½% of all gross income for the immediately preceding calendar year, as defined in the agreement. During this term, the property is required to be used exclusively as a residential apartment building containing 33 units reserved as affordable units. Parker Kier is responsible for all real estate taxes and maintenance of any improvements during the term of the lease. The ground lease payable totaled \$17,681 at December 31, 2015. The ground lease expense totaled \$17,681 for the year ended December 31, 2015.

**HDP - Note 12 - Unrestricted Net Assets, Non-Controlling Interest:**

The following is a reconciliation of the changes in partners' equity of Casa Colina, Logan and HDP Broadway and members' equity of Logan Development Management, LLC and HDP Broadway Management, LLC included in the accompanying consolidated financial statements as of and for the year ended December 31, 2015:

**Casa Colina**

	HDP General Partner	Non-Controlling Interest Limited Partner
Partners' Equity, at Beginning of Year	\$ (1)	\$ 693,356
Partner distributions	(5)	(45,320)
Net income	1	10,570
Partners' Equity, at End of Year	<u>\$ (5)</u>	<u>\$ 658,606</u>



## San Diego Housing Commission

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Note 19 - Discretely Presented Component Units (Continued)****Logan**

	Logan Development Management, LLC General Partner	Non-Controlling Interest Limited Partner
Partners' Equity, at Beginning of Year	\$ 44	\$ 2,257,656
Partner distributions	-	315,705
Net loss	(30)	(303,236)
Partners' Equity, at End of Year	<u>\$ 14</u>	<u>\$ 2,270,125</u>

**HDP Broadway**

	HDP Broadway Management, LLC General Partner	Non-Controlling Interest Limited Partner
Partners' Equity, at Beginning of Year	\$ (4)	\$ 1,771,252
Partner contributions	-	6,635,700
Syndication costs	-	(80,000)
Net loss	(42)	(420,436)
Partners' Equity, at End of Year	<u>\$ (46)</u>	<u>\$ 7,907,516</u>

**Logan Development Management, LLC**

	HDP Managing Member	Non-Controlling Interest Limited Partner
Members' Equity, at Beginning of Year	\$ 21,563	\$ 5,212
Net income	9,924	3,158
Members' Equity, at End of Year	<u>\$ 31,487</u>	<u>\$ 8,370</u>



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Note 19 - Discretely Presented Component Units (Continued)**

**HDP - Note 13 - Subsequent Events:**

On January 12, 2016, HDP acquired the New Palace Hotel located at 1814 5th Avenue, San Diego for approximately \$5,200,000 and became the sole owner of the property. The acquisition was financed by two loans in the amount of \$5,200,000 and \$599,261 from Local Initiatives Support Corporation. The loans bear interest at a fixed rate of 5.15% and 5.25%, respectively, and are due and payable on a quarterly basis commencing on May 1, 2016. The entire outstanding principal balance of the notes plus all accrued interest is due February 1, 2017.



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

**Note 20 - Subsequent Events**

Management evaluated the activity of SDHC through November 9, 2016, the date the financial statements were available to be issued, and concluded that no subsequent event has occurred that would require recognition in the financial statements or disclosure in the notes to financial statements.



SAN DIEGO  
HOUSING  
COMMISSION

# Supplementary Information



## *We're About People*

SDHC is the lead organizer for Project Homeless Connect, a one-day resource fair for homeless San Diegans. On January 27, 2016, 300 volunteers and 70 service providers came together for the 10th Project Homeless Connect to offer services, information and support to 1,215 homeless individuals and families.





## Supplementary Information

San Diego Housing Commission  
COMBINING SCHEDULE OF NET POSITION - ENTERPRISE FUNDS  
June 30, 2016

	<b>Business activities</b>	<b>Federal funds</b>	<b>State funds</b>	<b>Eliminations</b>	<b>Primary Government</b>
<b><u>Assets</u></b>					
Current assets					
Cash and cash equivalents	\$ 23,331,031	\$ 1	\$ -	\$ -	\$ 23,331,032
Restricted cash and cash equivalents	4,094,554	1,000	-	-	4,095,554
Short-term investments	41,210,792	11,039,139	379,373	-	52,629,304
Accounts receivable - tenants, net	265,978	83,998	4,204	-	354,180
Accounts receivable - funding sources	12,886,937	1,768,004	43,950	(2,627,961)	12,070,930
Accounts receivable - other	2,292,136	159,043	-	-	2,451,179
Notes and mortgages receivable, current portion	478,928	166,819	-	-	645,747
Accrued interest receivable - investments	144,719	24,571	1,011	-	170,301
Prepaid items and other assets	591,078	-	-	-	591,078
Total current assets	85,296,153	13,242,575	428,538	(2,627,961)	96,339,305
Noncurrent assets					
Long-term investments	49,578,316	8,417,643	346,309	-	58,342,268
Accrued interest receivable - notes and mortgages receivable	15,721,613	20,907,478	1,101,545	-	37,730,636
Notes and mortgages receivable, net of allowance for loan losses	91,644,928	166,228,935	8,970,113	-	266,843,976
Other assets	1,929,012	-	-	-	1,929,012
Capital assets not being depreciated	69,277,204	6,178,049	923,081	-	76,378,334
Capital assets, net of accumulated depreciation	95,875,837	5,723,983	156,854	-	101,756,674
Total noncurrent assets	324,026,910	207,456,088	11,497,902	-	542,980,900
Total assets	<u>\$ 409,323,063</u>	<u>\$ 220,698,663</u>	<u>\$ 11,926,440</u>	<u>\$ (2,627,961)</u>	<u>\$ 639,320,205</u>
Deferred outflows of resources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



## San Diego Housing Commission

## COMBINING SCHEDULE OF NET POSITION - ENTERPRISE FUNDS - CONTINUED

June 30, 2016

	Business activities	Federal funds	State funds	Eliminations	Primary Government
<b><u>Liabilities</u></b>					
Current liabilities					
Accounts payable	\$ 5,793,713	\$ 980,942	\$ 14,284	\$ (2,627,961)	\$ 4,160,978
Accounts payable - funding sources	242,189	246,406	-	-	488,595
Accrued payroll and benefits	886,112	471,535	5,578	-	1,363,225
Accrued compensated absences	1,989,103	-	-	-	1,989,103
Accrued interest payable	490,372	13,230	5,900	-	509,502
Notes payable, current portion	2,282,222	-	-	-	2,282,222
Deposits payable	1,906,943	69,862	9,649	-	1,986,454
Unearned revenue	2,300,547	161,981	704	-	2,463,232
Total current liabilities	15,891,201	1,943,956	36,115	(2,627,961)	15,243,311
Noncurrent liabilities					
Accrued interest payable - noncurrent	-	241,563	107,723	-	349,286
Notes payable, net of current portion	100,047,430	3,150,000	1,404,849	-	104,602,279
Other liabilities	368	560,231	-	-	560,599
Total noncurrent liabilities	100,047,798	3,951,794	1,512,572	-	105,512,164
Total liabilities	115,938,999	5,895,750	1,548,687	(2,627,961)	120,755,475
Deferred inflows of resources	-	-	-	-	-
<b><u>Net Position</u></b>					
Net investment in capital assets	64,695,498	8,752,032	(324,914)	-	73,122,616
Restricted					
HOME notes receivable reserve	-	163,962,769	-	-	163,962,769
NSP notes receivable reserve		7,301,265			7,301,265
Replacement reserves	3,337,846	-	-	-	3,337,846
VASH and FUP housing assistance reserves	-	2,378,941	-	-	2,378,941
Unrestricted	225,350,720	32,407,906	10,702,667	-	268,461,293
Total net position	293,384,064	214,802,913	10,377,753	-	518,564,730
Total liabilities and net position	\$ 409,323,063	\$ 220,698,663	\$ 11,926,440	\$ (2,627,961)	\$ 639,320,205



## San Diego Housing Commission

## COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - ENTERPRISE FUNDS

Year ended June 30, 2016

	<b>Business activities</b>	<b>Federal funds</b>	<b>State funds</b>	<b>Eliminations</b>	<b>Primary Government</b>
Operating revenues					
Dwelling rental income	\$ 27,250,768	\$ 781,046	\$ 92,610	\$ (34,128)	\$ 28,090,296
Land lease and other rental income	2,591,424	77,014	-	-	2,668,438
Fee revenue	4,596,309	157,329	-	(886,781)	3,866,857
Other revenue	3,118,146	520,773	138,295	-	3,777,214
Total operating revenues	37,556,647	1,536,162	230,905	(920,909)	38,402,805
Operating expenses					
Administrative expenses	14,067,915	18,405,733	273,571	(920,909)	31,826,310
Tenant services	477,915	1,148,380	19	-	1,626,314
Asset management	8,354,167	498,682	42,698	-	8,895,547
General expenses	1,414,100	790,034	(131,421)	-	2,072,713
Grant expense	9,797,263	5,743,843	212,174	-	15,753,280
Housing assistance	-	146,570,467	-	-	146,570,467
Depreciation	4,720,038	388,172	22,678	-	5,130,888
Total operating expenses	38,831,398	173,545,311	419,719	(920,909)	211,875,519
Net operating income (loss)	(1,274,751)	(172,009,149)	(188,814)	-	(173,472,714)





## San Diego Housing Commission

## COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - ENTERPRISE FUNDS - CONTINUED

Year ended June 30, 2016

	<b>Business activities</b>	<b>Federal funds</b>	<b>State funds</b>	<b>Eliminations</b>	<b>Primary Government</b>
Nonoperating revenues (expenses)					
Grant revenue	24,014,955	175,661,151	329,377	-	200,005,483
Interest income on investments and notes receivable	4,541,382	5,184,266	262,769	-	9,988,417
Interest expense	(5,376,490)	(94,500)	(42,135)	-	(5,513,125)
Gain on sale of capital assets	3,844,578	-	-	-	3,844,578
Total nonoperating revenues	27,024,425	180,750,917	550,011	-	208,325,353
Net income before operating transfers	25,749,674	8,741,768	361,197	-	34,852,639
Operating transfers in	6,256,958	167,325,998	183,062	(173,766,018)	-
Operating transfers out	(6,570,925)	(167,195,093)	-	173,766,018	-
Change in net position	25,435,707	8,872,673	544,259	-	34,852,639
Net position - beginning of year	267,948,357	205,930,240	9,833,494	-	483,712,091
Net position - end of year	<u>\$ 293,384,064</u>	<u>\$ 214,802,913</u>	<u>\$ 10,377,753</u>	<u>\$ -</u>	<u>\$ 518,564,730</u>



San Diego Housing Commission  
COMBINING SCHEDULE OF CASH FLOWS - ENTERPRISE FUNDS  
Year ended June 30, 2016

	<b>Business activities</b>	<b>Federal funds</b>	<b>State funds</b>	<b>Primary Government</b>
<b>Cash flows from operating activities</b>				
Cash received from tenants and operations	\$ 36,665,736	\$ 1,511,635	\$ 227,907	\$ 38,405,278
Cash payments to suppliers for operations	(11,849,397)	(151,949,541)	(361,799)	(164,160,737)
Cash payments for general and administrative expenses	(15,381,410)	(18,751,132)	(281,485)	(34,414,027)
Net cash used for operating activities	9,434,929	(169,189,038)	(415,377)	(160,169,486)
<b>Cash flows from capital and related financing activities</b>				
Principal paid on notes payable	(3,094,289)	-	-	(3,094,289)
Acquisition and construction of capital assets, net	(5,528,885)	(2,919,410)	-	(8,448,295)
Sale of capital assets	3,844,579	-	-	3,844,579
Proceeds from additional borrowings	64,878	-	-	64,878
Interest payments	(5,378,845)	(13,230)	(5,901)	(5,397,976)
Net cash used for capital and related financing activities	(10,092,562)	(2,932,640)	(5,901)	(13,031,103)
<b>Cash flows from noncapital financing activities</b>				
Cash received from grants	25,595,933	176,776,768	311,079	202,683,780
Transfers in (out)	(313,967)	130,905	183,062	-
Net cash provided by noncapital financing activities	25,281,966	176,907,673	494,141	202,683,780



San Diego Housing Commission

COMBINING SCHEDULE OF CASH FLOWS - ENTERPRISE FUNDS - CONTINUED

Year ended June 30, 2016

	<b>Business activities</b>	<b>Federal funds</b>	<b>State funds</b>	<b>Primary Government</b>
<b>Cash flows from investing activities</b>				
Interest on investments and notes receivable	4,416,779	5,040,716	28,200	9,485,695
Collection of notes receivable	6,149,022	3,797,935	148,621	10,095,578
Cash loaned on notes receivable	(8,974,056)	(11,231,482)	(782,599)	(20,988,137)
Purchases of investments	(51,663,151)	(14,213,970)	(1,048,662)	(66,925,783)
Proceeds from sale of investments	22,879,821	11,816,702	1,581,577	36,278,100
Net cash used for investing activities	(27,191,585)	(4,790,099)	(72,863)	(32,054,547)
Net decrease in cash and cash equivalents	(2,567,252)	(4,104)	-	(2,571,356)
<b>Cash and cash equivalents</b>				
Beginning of year	29,992,837	5,105	-	29,997,942
End of year	\$ 27,425,585	\$ 1,001	\$ -	\$ 27,426,586



San Diego Housing Commission  
COMBINING SCHEDULE OF CASH FLOWS - ENTERPRISE FUNDS - CONTINUED  
Year ended June 30, 2016

	<u>Business activities</u>	<u>Federal funds</u>	<u>State funds</u>	<u>Primary Government</u>
<b>Reconciliation of operating loss to net cash used for operating activities</b>				
Operating loss	\$ (1,274,751)	\$ (172,009,149)	\$ (188,814)	\$ (173,472,714)
Adjustments to reconcile operating loss to net cash used for operating activities:				
Depreciation	4,720,039	388,172	22,677	5,130,888
Amortization	75,285	-	-	75,285
Provision for loan losses	97,392	594,424	(135,434)	556,382
Allowance for forgivable loans	5,477,031	2,499,401	212,174	8,188,606
Changes in operating assets and liabilities:				
(Increase) decrease in tenant receivables	(29,059)	121	(2,999)	(31,937)
(Increase) decrease in other receivables	(588,174)	13,852	-	(574,322)
Increase in prepaid items and other assets	(382,253)	-	-	(382,253)
(Increase) decrease in accounts payable	315,563	(592,141)	(1,356)	(277,934)
Increase (decrease) in accrued payroll and benefits	167,838	(149,788)	(3,901)	14,149
Increase (decrease) in deposits payable	501,321	3,651	(20,628)	484,344
Increase (decrease) in unearned revenues	358,879	94,593	(297,096)	156,376
Decrease in other liabilities	(4,182)	(32,174)	-	(36,356)
Net cash provided by (used for) operating activities	<u>\$ 9,434,929</u>	<u>\$ (169,189,038)</u>	<u>\$ (415,377)</u>	<u>\$ (160,169,486)</u>

## **FINANCIAL DATA SCHEDULE**

**San Diego Housing Commission (CA063)**  
**San Diego, California**  
**Entity Wide Balance Sheet Summary**  
**Fiscal Year End: 06/30/2016**

Submission Type: Audited/Single Audit

	Project Total	14.900 Lead-Based Paint Hazard Control in Privately-Owned Housing	14.267 Continuum of Care Program	14.OPS MTW Demonstration Program for Low Rent	94.019 Social Innovation Fund	14.CFP MTW Demonstration Program for Capital Fund	14.218 Community Development Block Grants/Entitlement Grants	14.HCV MTW Demonstration Program for HCV program	6.1 Component Unit - Discretely Presented	6.2 Component Unit - Blended
111 Cash - Unrestricted	\$0		\$0						\$6,954,464	\$5,457,684
112 Cash - Restricted - Modernization and Development										
113 Cash - Other Restricted									\$2,421,433	\$3,337,846
114 Cash - Tenant Security Deposits									\$121,382	\$702,138
115 Cash - Restricted for Payment of Current Liabilities										
100 Total Cash	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$9,497,279	\$9,497,668
121 Accounts Receivable - PHA Projects										
122 Accounts Receivable - HUD Other Projects										
124 Accounts Receivable - Other Government	\$406,951	\$28,879	\$181,898				\$246,077			
125 Accounts Receivable - Miscellaneous	\$0	\$0	\$0				\$0		\$229,425	\$15,744
126 Accounts Receivable - Tenants	\$24,702								\$1,222	\$123,493
126.1 Allowance for Doubtful Accounts -Tenants	-\$2,715								\$0	-\$12,477
126.2 Allowance for Doubtful Accounts - Other	\$0	\$0	\$0		\$0		\$0		\$0	\$0
127 Notes, Loans, & Mortgages Receivable - Current							\$4,611			
128 Fraud Recovery										
128.1 Allowance for Doubtful Accounts - Fraud										
129 Accrued Interest Receivable	\$11,834						\$670,293			
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$440,772	\$28,879	\$181,898	\$0	\$0	\$0	\$920,981	\$0	\$230,647	\$126,760
131 Investments - Unrestricted	\$8,494,036						\$1,007,660		\$41,615	
132 Investments - Restricted										
135 Investments - Restricted for Payment of Current Liability										
142 Prepaid Expenses and Other Assets									\$250,450	\$296,671
143 Inventories										
143.1 Allowance for Obsolete Inventories										
144 Inter Program Due From										
145 Assets Held for Sale										
150 Total Current Assets	\$8,934,808	\$28,879	\$181,898	\$0	\$0	\$0	\$1,928,641	\$0	\$10,019,991	\$9,921,099
161 Land	\$2,327,727								\$1,655,329	\$19,684,285
162 Buildings	\$8,576,947								\$35,963,482	\$33,674,414
163 Furniture, Equipment & Machinery - Dwellings									\$1,193,476	
164 Furniture, Equipment & Machinery - Administration									\$2,150	
165 Leasehold Improvements										
166 Accumulated Depreciation	-\$2,852,963								-\$4,698,605	-\$8,319,476
167 Construction in Progress	\$3,850,322								\$12,183,982	
168 Infrastructure										
160 Total Capital Assets, Net of Accumulated Depreciation	\$11,902,033	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$46,299,814	\$45,039,223
171 Notes, Loans and Mortgages Receivable - Non-Current							\$8,183,664			
172 Notes, Loans, & Mortgages Receivable - Non Current - Past Due										
173 Grants Receivable - Non Current										
174 Other Assets	\$0								\$5,135,156	\$1,684,780
176 Investments in Joint Ventures										
180 Total Non-Current Assets	\$11,902,033	\$0	\$0	\$0	\$0	\$0	\$8,183,664	\$0	\$51,434,970	\$46,724,003
200 Deferred Outflow of Resources										

**San Diego Housing Commission (CA063)**  
**San Diego, California**  
**Entity Wide Balance Sheet Summary**  
**Fiscal Year End: 06/30/2016**

Submission Type: Audited/Single Audit

	14.880 Family Unification Program (FUP)	14.231 Emergency Shelter Grants Program	14.881 Moving to Work Demonstration Program	14.239 HOME Investment Partnerships Program	93.602 New Assets for Independence Demonstration Program	9 Other Federal Program 2	2 State/Local	1 Business Activities	14.870 Resident Opportunity and Supportive Services	14.856 Lower Income Housing Assistance Program_Section 8 Moderate	Subtotal
111 Cash - Unrestricted				\$0			\$0	\$17,755,482		\$0	\$30,167,630
112 Cash - Restricted - Modernization and Development										\$0	
113 Cash - Other Restricted			\$1,000					\$119,650		\$0	\$5,879,929
114 Cash - Tenant Security Deposits								\$52,785		\$0	\$876,305
115 Cash - Restricted for Payment of Current Liabilities										\$0	
100 Total Cash	\$0	\$0	\$1,000	\$0	\$0	\$0	\$0	\$17,927,917	\$0	\$0	\$36,923,864
121 Accounts Receivable - PHA Projects			\$43,013							\$0	\$43,013
122 Accounts Receivable - HUD Other Projects			\$422,841							\$0	\$422,841
124 Accounts Receivable - Other Government		\$179,314	\$40,672	\$237,948			\$43,950	\$10,258,976	\$7,202	\$16,223	\$11,648,090
125 Accounts Receivable - Miscellaneous	\$5,165	\$0	\$119,542	\$5,042				\$4,930,968		\$0	\$5,305,886
126 Accounts Receivable - Tenants			\$62,759				\$4,656	\$141,222		\$0	\$358,054
126.1 Allowance for Doubtful Accounts -Tenants			-\$88				-\$452	-\$12,875		\$0	-\$28,607
126.2 Allowance for Doubtful Accounts - Other	\$0	\$0	-\$14,378	\$0			\$0	\$0	\$0	\$0	-\$14,378
127 Notes, Loans, & Mortgages Receivable - Current				\$162,209				\$478,928		\$0	\$645,748
128 Fraud Recovery			\$167,068							\$0	\$167,068
128.1 Allowance for Doubtful Accounts - Fraud			-\$167,068							\$0	-\$167,068
129 Accrued Interest Receivable	\$556		\$12,142	\$20,237,185	\$39		\$1,102,556	\$15,866,332		\$0	\$37,900,937
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$5,721	\$179,314	\$686,503	\$20,642,384	\$39	\$0	\$1,150,710	\$31,663,551	\$7,202	\$16,223	\$56,281,584
131 Investments - Unrestricted	\$390,844		\$8,076,401	\$1,316,248	\$28,338	\$21,625	\$725,683	\$90,789,108		\$121,628	\$111,013,186
132 Investments - Restricted										\$0	
135 Investments - Restricted for Payment of Current Liability										\$0	
142 Prepaid Expenses and Other Assets								\$294,407		\$0	\$841,528
143 Inventories										\$0	
143.1 Allowance for Obsolete Inventories										\$0	
144 Inter Program Due From										\$0	
145 Assets Held for Sale										\$0	
150 Total Current Assets	\$396,565	\$179,314	\$8,763,904	\$21,958,632	\$28,377	\$21,625	\$1,876,393	\$140,674,983	\$7,202	\$137,851	\$205,060,162
161 Land							\$484,372	\$45,585,192		\$0	\$69,736,905
162 Buildings							\$899,548	\$91,325,302		\$0	\$170,439,693
163 Furniture, Equipment & Machinery - Dwellings								\$436,731		\$0	\$1,630,207
164 Furniture, Equipment & Machinery - Administration								\$4,058,679		\$0	\$4,060,829
165 Leasehold Improvements										\$0	
166 Accumulated Depreciation							-\$742,694	-\$25,299,814		\$0	-\$41,913,552
167 Construction in Progress							\$438,709	\$4,007,728		\$0	\$20,480,741
168 Infrastructure										\$0	
160 Total Capital Assets, Net of Accumulated Depreciation	\$0	\$0	\$0	\$0	\$0	\$0	\$1,079,935	\$120,113,818	\$0	\$0	\$224,434,823
171 Notes, Loans and Mortgages Receivable - Non-Current				\$158,045,271			\$8,970,113	\$91,644,928		\$0	\$266,843,976
172 Notes, Loans, & Mortgages Receivable - Non Current - Past Due										\$0	
173 Grants Receivable - Non Current										\$0	
174 Other Assets								\$244,232		\$0	\$7,064,168
176 Investments in Joint Ventures										\$0	
180 Total Non-Current Assets	\$0	\$0	\$0	\$158,045,271	\$0	\$0	\$10,050,048	\$212,002,978	\$0	\$0	\$498,342,967
200 Deferred Outflow of Resources										\$0	

**San Diego Housing Commission (CA063)**  
**San Diego, California**  
**Entity Wide Balance Sheet Summary**  
**Fiscal Year End: 06/30/2016**

Submission Type: Audited/Single Audit

	ELIM	Total
111 Cash - Unrestricted		\$30,167,630
112 Cash - Restricted - Modernization and Development		
113 Cash - Other Restricted		\$5,879,929
114 Cash - Tenant Security Deposits		\$876,305
115 Cash - Restricted for Payment of Current Liabilities		
100 Total Cash	\$0	\$36,923,864
121 Accounts Receivable - PHA Projects		\$43,013
122 Accounts Receivable - HUD Other Projects		\$422,841
124 Accounts Receivable - Other Government		\$11,648,090
125 Accounts Receivable - Miscellaneous	-\$2,627,961	\$2,677,925
126 Accounts Receivable - Tenants		\$358,054
126.1 Allowance for Doubtful Accounts -Tenants		-\$28,607
126.2 Allowance for Doubtful Accounts - Other		-\$14,378
127 Notes, Loans, & Mortgages Receivable - Current		\$645,748
128 Fraud Recovery		\$167,068
128.1 Allowance for Doubtful Accounts - Fraud		-\$167,068
129 Accrued Interest Receivable		\$37,900,937
120 Total Receivables, Net of Allowances for Doubtful Accounts	-\$2,627,961	\$53,653,623
131 Investments - Unrestricted		\$111,013,186
132 Investments - Restricted		
135 Investments - Restricted for Payment of Current Liability		
142 Prepaid Expenses and Other Assets		\$841,528
143 Inventories		
143.1 Allowance for Obsolete Inventories		
144 Inter Program Due From		
145 Assets Held for Sale		
150 Total Current Assets	-\$2,627,961	\$202,432,201
161 Land		\$69,736,905
162 Buildings		\$170,439,693
163 Furniture, Equipment & Machinery - Dwellings		\$1,630,207
164 Furniture, Equipment & Machinery - Administration		\$4,060,829
165 Leasehold Improvements		
166 Accumulated Depreciation		-\$41,913,552
167 Construction in Progress		\$20,480,741
168 Infrastructure		
160 Total Capital Assets, Net of Accumulated Depreciation	\$0	\$224,434,823
171 Notes, Loans and Mortgages Receivable - Non-Current		\$266,843,976
172 Notes, Loans, & Mortgages Receivable - Non Current - Past Due		
173 Grants Receivable - Non Current		
174 Other Assets		\$7,064,168
176 Investments in Joint Ventures		
180 Total Non-Current Assets	\$0	\$498,342,967
200 Deferred Outflow of Resources		



**San Diego Housing Commission (CA063)**  
**San Diego, California**  
**Entity Wide Balance Sheet Summary**  
**Fiscal Year End: 06/30/2016**

Submission Type: Audited/Single Audit

	Project Total	14.900 Lead-Based Paint Hazard Control in Privately-Owned Housing	14.267 Continuum of Care Program	14.OPS MTW Demonstration Program for Low Rent	94.019 Social Innovation Fund	14.CFP MTW Demonstration Program for Capital Fund	14.218 Community Development Block Grants/Entitlement Grants	14.HCV MTW Demonstration Program for HCV program	6.1 Component Unit - Discretely Presented	6.2 Component Unit - Blended
290 Total Assets and Deferred Outflow of Resources	\$20,836,841	\$28,879	\$181,898	\$0	\$0	\$0	\$10,112,305	\$0	\$61,454,961	\$56,645,102
311 Bank Overdraft										
312 Accounts Payable <= 90 Days	\$356,641	\$1,335	\$160,097				\$126,946		\$6,406,780	\$3,446,964
313 Accounts Payable >90 Days Past Due										
321 Accrued Wage/Payroll Taxes Payable	\$8,472	\$10,669	\$3,443				\$6,167		\$17,934	\$27,807
322 Accrued Compensated Absences - Current Portion										
324 Accrued Contingency Liability										
325 Accrued Interest Payable	\$254,793								\$2,090,522	\$374,496
331 Accounts Payable - HUD PHA Programs	\$8,485									
332 Account Payable - PHA Projects										
333 Accounts Payable - Other Government	\$80,731	\$16,875	\$18,358							\$15,977
341 Tenant Security Deposits	\$69,611								\$116,986	\$702,134
342 Unearned Revenue	\$8,019			\$0					\$9,253,297	\$134,373
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue									\$425,601	\$1,586,272
344 Current Portion of Long-term Debt - Operating Borrowings										
345 Other Current Liabilities										\$0
346 Accrued Liabilities - Other										
347 Inter Program - Due To										
348 Loan Liability - Current										
310 Total Current Liabilities	\$786,752	\$28,879	\$181,898	\$0	\$0	\$0	\$133,113	\$0	\$18,312,050	\$6,288,023
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue	\$3,150,000			\$0					\$32,665,138	\$85,836,921
352 Long-term Debt, Net of Current - Operating Borrowings										
353 Non-current Liabilities - Other										
354 Accrued Compensated Absences - Non Current										
355 Loan Liability - Non Current										
356 FASB 5 Liabilities										
357 Accrued Pension and OPEB Liabilities										
350 Total Non-Current Liabilities	\$3,150,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$32,665,138	\$85,836,921
300 Total Liabilities	\$3,936,752	\$28,879	\$181,898	\$0	\$0	\$0	\$133,113	\$0	\$50,977,188	\$92,124,944
400 Deferred Inflow of Resources										
508.4 Net Investment in Capital Assets	\$8,752,032									-\$40,511,861
511.4 Restricted Net Position	\$0						\$7,301,265			\$3,337,846
512.4 Unrestricted Net Position	\$8,148,057	\$0	\$0	\$0	\$0	\$0	\$2,677,927	\$0	\$10,477,773	\$1,694,173
513 Total Equity - Net Assets / Position	\$16,900,089	\$0	\$0	\$0	\$0	\$0	\$9,979,192	\$0	\$10,477,773	-\$35,479,842
600 Total Liabilities, Deferred Inflows of Resources and Equity - Net	\$20,836,841	\$28,879	\$181,898	\$0	\$0	\$0	\$10,112,305	\$0	\$61,454,961	\$56,645,102

**San Diego Housing Commission (CA063)**  
**San Diego, California**  
**Entity Wide Balance Sheet Summary**  
**Fiscal Year End: 06/30/2016**

Submission Type: Audited/Single Audit

	14.880 Family Unification Program (FUP)	14.231 Emergency Shelter Grants Program	14.881 Moving to Work Demonstration Program	14.239 HOME Investment Partnerships Program	93.602 New Assets for Independence Demonstration Program	9 Other Federal Program 2	2 State/Local	1 Business Activities	14.870 Resident Opportunity and Supportive Services	14.856 Lower Income Housing Assistance Program_Section 8 Moderate	Subtotal
290 Total Assets and Deferred Outflow of Resources	\$396,565	\$179,314	\$8,763,904	\$180,003,903	\$28,377	\$21,625	\$11,926,441	\$352,677,960	\$7,202	\$137,851	\$703,403,128
311 Bank Overdraft										\$0	
312 Accounts Payable <= 90 Days	\$0	\$65,431	\$270,476	\$19			\$14,285	\$2,346,747		\$0	\$13,195,721
313 Accounts Payable >90 Days Past Due										\$0	
321 Accrued Wage/Payroll Taxes Payable	\$1,963	\$1,299	\$396,131	\$39,877			\$5,578	\$858,305	\$2,158	\$1,354	\$1,381,157
322 Accrued Compensated Absences - Current Portion								\$1,989,103		\$0	\$1,989,103
324 Accrued Contingency Liability										\$0	
325 Accrued Interest Payable							\$113,623	\$115,877		\$0	\$2,949,311
331 Accounts Payable - HUD PHA Programs							\$0	\$218,470		\$4,329	\$231,284
332 Account Payable - PHA Projects										\$0	
333 Accounts Payable - Other Government		\$112,584						\$7,742	\$5,044	\$0	\$257,311
341 Tenant Security Deposits			\$10				\$9,649	\$443,147		\$0	\$1,341,537
342 Unearned Revenue			\$125,827		\$28,136		\$704	\$2,166,174		\$0	\$11,716,530
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue								\$695,950		\$0	\$2,707,823
344 Current Portion of Long-term Debt - Operating Borrowings										\$0	
345 Other Current Liabilities					\$241			\$761,662		\$0	\$761,903
346 Accrued Liabilities - Other										\$0	
347 Inter Program - Due To										\$0	
348 Loan Liability - Current										\$0	
310 Total Current Liabilities	\$1,963	\$179,314	\$792,444	\$39,896	\$28,377	\$0	\$143,839	\$9,603,177	\$7,202	\$5,683	\$36,532,610
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue							\$1,404,849	\$14,210,509		\$0	\$137,267,417
352 Long-term Debt, Net of Current - Operating Borrowings										\$0	
353 Non-current Liabilities - Other	\$8,624		\$551,607							\$0	\$560,231
354 Accrued Compensated Absences - Non Current										\$0	
355 Loan Liability - Non Current										\$0	
356 FASB 5 Liabilities										\$0	
357 Accrued Pension and OPEB Liabilities								\$368		\$0	\$368
350 Total Non-Current Liabilities	\$8,624	\$0	\$551,607	\$0	\$0	\$0	\$1,404,849	\$14,210,877	\$0	\$0	\$137,828,016
300 Total Liabilities	\$10,587	\$179,314	\$1,344,051	\$39,896	\$28,377	\$0	\$1,548,688	\$23,814,053	\$7,202	\$5,683	\$174,360,625
400 Deferred Inflow of Resources										\$0	
508.4 Net Investment in Capital Assets							\$324,914	\$105,207,359		\$0	\$73,122,616
511.4 Restricted Net Position	\$180,092		\$2,198,849	\$163,962,768			\$0			\$0	\$176,980,821
512.4 Unrestricted Net Position	\$205,886	\$0	\$5,221,004	\$16,001,239	\$0	\$21,625	\$10,702,667	\$223,656,548	\$0	\$132,168	\$278,939,066
513 Total Equity - Net Assets / Position	\$385,978	\$0	\$7,419,853	\$179,964,007	\$0	\$21,625	\$10,377,753	\$328,863,907	\$0	\$132,168	\$529,042,503
600 Total Liabilities, Deferred Inflows of Resources and Equity - Net	\$396,565	\$179,314	\$8,763,904	\$180,003,903	\$28,377	\$21,625	\$11,926,441	\$352,677,961	\$7,202	\$137,851	\$703,403,129

**San Diego Housing Commission (CA063)**  
**San Diego, California**  
**Entity Wide Balance Sheet Summary**  
**Fiscal Year End: 06/30/2016**

Submission Type: Audited/Single Audit

	ELIM	Total
290 Total Assets and Deferred Outflow of Resources	-\$2,627,961	\$700,775,167
311 Bank Overdraft		
312 Accounts Payable <= 90 Days	-\$2,627,961	\$10,567,760
313 Accounts Payable >90 Days Past Due		
321 Accrued Wage/Payroll Taxes Payable		\$1,381,157
322 Accrued Compensated Absences - Current Portion		\$1,989,103
324 Accrued Contingency Liability		
325 Accrued Interest Payable		\$2,949,311
331 Accounts Payable - HUD PHA Programs		\$231,284
332 Account Payable - PHA Projects		
333 Accounts Payable - Other Government		\$257,311
341 Tenant Security Deposits		\$1,341,537
342 Unearned Revenue		\$11,716,530
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue		\$2,707,823
344 Current Portion of Long-term Debt - Operating Borrowings		
345 Other Current Liabilities		\$761,903
346 Accrued Liabilities - Other		
347 Inter Program - Due To		
348 Loan Liability - Current		
310 Total Current Liabilities	-\$2,627,961	\$33,904,649
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue		\$137,267,417
352 Long-term Debt, Net of Current - Operating Borrowings		
353 Non-current Liabilities - Other		\$560,231
354 Accrued Compensated Absences - Non Current		
355 Loan Liability - Non Current		
356 FASB 5 Liabilities		
357 Accrued Pension and OPEB Liabilities		\$368
350 Total Non-Current Liabilities	\$0	\$137,828,016
300 Total Liabilities	-\$2,627,961	\$171,732,664
400 Deferred Inflow of Resources		
508.4 Net Investment in Capital Assets		\$73,122,616
511.4 Restricted Net Position		\$176,980,821
512.4 Unrestricted Net Position		\$278,939,066
513 Total Equity - Net Assets / Position	\$0	\$529,042,503
600 Total Liabilities, Deferred Inflows of Resources and Equity - Net	-\$2,627,961	\$700,775,168

**San Diego Housing Commission (CA063)**  
**San Diego, California**  
**Entity Wide Revenue and Expense Summary**  
**Fiscal Year End: 06/30/2016**

Submission Type: Audited/Single Audit

	Project Total	14.900 Lead-Based Paint Hazard Control in Privately- Owned Housing	14.267 Continuum of Care Program	14.OPS MTW Demonstration Program for Low Rent	94.019 Social Innovation Fund	14.CFP MTW Demonstration Program for Capital Fund	14.218 Community Development Block Grants/Entitlement Grants	14.HCV MTW Demonstration Program for HCV program	6.1 Component Unit - Discretely Presented	6.2 Component Unit - Blended	14.880 Family Unification Program (FUP)	14.231 Emergency Shelter Grants Program
70300 Net Tenant Rental Revenue	\$772,616								\$4,865,740	\$16,793,329		
70400 Tenant Revenue - Other	\$8,425								\$11,448	\$85,740		
70500 Total Tenant Revenue	\$781,041	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$4,877,188	\$16,879,069	\$0	\$0
70600 HUD PHA Operating Grants		\$242,246	\$3,271,534	\$248,290	\$34,571	\$3,102,929	\$1,817,494	\$160,080,921	\$114,524		\$1,160,663	\$956,595
70610 Capital Grants												
70710 Management Fee												
70720 Asset Management Fee												
70730 Book Keeping Fee												
70740 Front Line Service Fee												
70750 Other Fees												
70700 Total Fee Revenue												
70800 Other Government Grants		\$38,659					\$9,263					
71100 Investment Income - Unrestricted	\$78,133						\$750		\$5,131	\$1,370	\$18,825	
71200 Mortgage Interest Income							\$192,077					
71300 Proceeds from Disposition of Assets Held for Sale												
71310 Cost of Sale of Assets												
71400 Fraud Recovery												
71500 Other Revenue	\$23,509								\$545,441	\$213,129		
71600 Gain or Loss on Sale of Capital Assets												
72000 Investment Income - Restricted	\$2,218								\$2,020	\$736,755		
70000 Total Revenue	\$884,901	\$280,905	\$3,271,534	\$248,290	\$34,571	\$3,102,929	\$2,019,584	\$160,080,921	\$5,544,304	\$17,830,323	\$1,179,488	\$956,595
91100 Administrative Salaries	\$120,687	\$94,609	\$83,871				\$115,560		\$229,749	\$375,409	\$30,220	\$42,570
91200 Auditing Fees	\$27,500								\$135,505	\$57,600		
91300 Management Fee												
91310 Book-keeping Fee									\$17,389			
91400 Advertising and Marketing									\$2,120	\$86		
91500 Employee Benefit contributions - Administrative	\$41,661	\$20,351	\$28,368				\$36,569		\$132,714	\$147,768	\$10,952	\$15,108
91600 Office Expenses	\$54,059	\$10,426	\$178				\$137		\$187,740	\$131,113		
91700 Legal Expense	\$2,704						\$49		\$233,975	\$37,569		
91800 Travel	\$2,060	\$974								\$2,807		
91810 Allocated Overhead	\$303,916		\$62,287				\$5,837			\$853,764	\$46,075	
91900 Other	\$5,590	\$32,477	\$26,191				\$42		\$903,427	\$51,146	\$448	
91000 Total Operating - Administrative	\$558,177	\$158,837	\$200,895	\$0	\$0	\$0	\$158,194	\$0	\$1,842,619	\$1,657,262	\$87,695	\$57,678
92000 Asset Management Fee												
92100 Tenant Services - Salaries					\$13,331				\$55,957			
92200 Relocation Costs	\$91,972	\$675								\$141,171		
92300 Employee Benefit Contributions - Tenant Services					\$4,389							
92400 Tenant Services - Other	\$90								\$10,265	\$49,649		
92500 Total Tenant Services	\$92,062	\$675	\$0	\$0	\$17,720	\$0	\$0	\$0	\$66,222	\$190,820	\$0	\$0
93100 Water	\$75,341								\$90,879	\$645,579		
93200 Electricity	\$26,542								\$238,762	\$133,606		
93300 Gas	\$13,767								\$57,522	\$152,281		
93400 Fuel												

**San Diego Housing Commission (CA063)**  
**San Diego, California**  
**Entity Wide Revenue and Expense Summary**  
**Fiscal Year End: 06/30/2016**

Submission Type: Audited/Single Audit

	14.881 Moving to Work Demonstration Program	14.239 HOME Investment Partnerships Program	93.602 New Assets for Independence Demonstration Program	9 Other Federal Program 2	2 State/Local	1 Business Activities	14.870 Resident Opportunity and Supportive Services	14.856 Lower Income Housing Assistance Program_Section 8: Moderate	Subtotal	ELIM	Total
70300 Net Tenant Rental Revenue					\$91,655	\$10,228,204		\$0	\$32,751,544	-\$34,128	\$32,717,416
70400 Tenant Revenue - Other	\$5				\$955	\$71,612		\$0	\$178,185		\$178,185
70500 Total Tenant Revenue	\$5	\$0	\$0	\$0	\$92,610	\$10,299,816	\$0	\$0	\$32,929,729	-\$34,128	\$32,895,601
70600 HUD PHA Operating Grants		\$4,242,773	\$32,125			\$0	\$7,202	\$463,810	\$175,775,677		\$175,775,677
70610 Capital Grants								\$0			
70710 Management Fee								\$0			
70720 Asset Management Fee								\$0			
70730 Book Keeping Fee								\$0			
70740 Front Line Service Fee								\$0			
70750 Other Fees						\$30,078		\$0	\$30,078		\$30,078
70700 Total Fee Revenue								\$0	\$0	\$0	\$0
70800 Other Government Grants					\$341,006	\$24,042,300		\$0	\$24,431,228		\$24,431,228
71100 Investment Income - Unrestricted	\$162,861	\$1,880	\$218	\$0	\$7,668	\$893,444		\$3,193	\$1,173,473		\$1,173,473
71200 Mortgage Interest Income		\$4,724,111			\$254,624	\$2,909,814		\$0	\$8,080,626		\$8,080,626
71300 Proceeds from Disposition of Assets Held for Sale								\$0			
71310 Cost of Sale of Assets								\$0			
71400 Fraud Recovery	\$94,261							\$0	\$94,261		\$94,261
71500 Other Revenue	\$291,603	\$297,821			\$126,666	\$10,107,209		\$0	\$11,605,378	-\$886,781	\$10,718,597
71600 Gain or Loss on Sale of Capital Assets						\$3,844,578		\$0	\$3,844,578		\$3,844,578
72000 Investment Income - Restricted					\$477			\$0	\$741,470		\$741,470
70000 Total Revenue	\$548,730	\$9,266,585	\$32,343	\$0	\$823,051	\$52,127,239	\$7,202	\$467,003	\$258,706,498	-\$920,909	\$257,785,589
91100 Administrative Salaries	\$5,058,070	\$488,495			\$95,122	\$10,842,588		\$22,046	\$17,598,996		\$17,598,996
91200 Auditing Fees					\$2,500	\$111,000		\$0	\$334,105		\$334,105
91300 Management Fee								\$0			
91310 Book-keeping Fee								\$0	\$17,389		\$17,389
91400 Advertising and Marketing	\$15,810				\$1,480	\$48,620		\$0	\$68,116		\$68,116
91500 Employee Benefit contributions - Administrative	\$1,783,426	\$153,142			\$31,234	\$3,149,948		\$7,794	\$5,559,035		\$5,559,035
91600 Office Expenses	\$184,244	\$5,059			\$1,874	\$2,938,012		\$0	\$3,512,842	-\$34,128	\$3,478,714
91700 Legal Expense	\$130,910	\$3,184			\$3,131	\$1,072,535		\$0	\$1,484,057		\$1,484,057
91800 Travel	\$16,886					\$119,746		\$0	\$142,473		\$142,473
91810 Allocated Overhead	\$7,973,175	\$489,188			\$135,088	\$9,044,890		\$30,863	\$855,303	-\$855,303	\$0
91900 Other	\$535,446	\$20,471			\$0	\$2,580,211	\$64	\$309	\$4,155,822	-\$31,478	\$4,124,344
91000 Total Operating - Administrative	\$15,697,967	\$1,159,539	\$0	\$0	\$270,429	\$11,817,770	\$64	\$61,012	\$33,728,138	-\$920,909	\$32,807,229
92000 Asset Management Fee								\$0			
92100 Tenant Services - Salaries	\$727,688					\$66,537	\$5,586	\$0	\$869,099		\$869,099
92200 Relocation Costs	\$38,608					\$145,861		\$0	\$418,287		\$418,287
92300 Employee Benefit Contributions - Tenant Services	\$234,773					\$20,845	\$1,446	\$0	\$261,453		\$261,453
92400 Tenant Services - Other	\$3,714				\$19	\$42,984		\$0	\$106,721		\$106,721
92500 Total Tenant Services	\$1,004,783	\$0	\$0	\$0	\$19	\$276,227	\$7,032	\$0	\$1,655,560	\$0	\$1,655,560
93100 Water					\$4,078	\$309,833		\$0	\$1,125,710		\$1,125,710
93200 Electricity					\$4,041	\$651,070		\$0	\$1,054,021		\$1,054,021
93300 Gas					\$3,589	\$106,422		\$0	\$333,581		\$333,581
93400 Fuel								\$0			

**San Diego Housing Commission (CA063)**  
**San Diego, California**  
**Entity Wide Revenue and Expense Summary**  
**Fiscal Year End: 06/30/2016**

Submission Type: Audited/Single Audit

	Project Total	14.900 Lead-Based Paint Hazard Control in Privately- Owned Housing	14.267 Continuum of Care Program	14.OPS MTW Demonstration Program for Low Rent	94.019 Social Innovation Fund	14.CFP MTW Demonstration Program for Capital Fund	14.218 Community Development Block Grants/Entitlement Grants	14.HCV MTW Demonstration Program for HCV program	6.1 Component Unit - Discretely Presented	6.2 Component Unit - Blended	14.880 Family Unification Program (FUP)	14.231 Emergency Shelter Grants Program
93500 Labor												
93600 Sewer	\$73,211								\$77,347	\$538,183		
93700 Employee Benefit Contributions - Utilities												
93800 Other Utilities Expense	\$575								\$990	\$3,173		
93000 Total Utilities	\$189,436	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$465,500	\$1,472,822	\$0	\$0
94100 Ordinary Maintenance and Operations - Labor	\$46,640								\$173,387	\$376,614		
94200 Ordinary Maintenance and Operations - Materials and Other	\$17,219								\$34,791	\$138,096		
94300 Ordinary Maintenance and Operations Contracts	\$186,413			\$0					\$280,183	\$1,936,421		
94500 Employee Benefit Contributions - Ordinary Maintenance	\$20,032									\$145,267		
94000 Total Maintenance	\$270,304	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$488,361	\$2,596,398	\$0	\$0
95100 Protective Services - Labor	\$0								\$15,112			
95200 Protective Services - Other Contract Costs	\$27,148								\$168,203	\$118,639		
95300 Protective Services - Other									\$9,659	\$1,086		
95500 Employee Benefit Contributions - Protective Services												
95000 Total Protective Services	\$27,148	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$192,974	\$119,725	\$0	\$0
96110 Property Insurance	\$9,822									\$65,730		
96120 Liability Insurance	\$4,733								\$48,830	\$39,751	\$353	
96130 Workmen's Compensation	\$7,871	\$886	\$1,496		\$307		\$2,638		\$54,301	\$44,972	\$608	\$1,037
96140 All Other Insurance	\$10,036								\$5,208	\$62,209	\$3	
96100 Total Insurance Premiums	\$32,462	\$886	\$1,496	\$0	\$307	\$0	\$2,638	\$0	\$108,339	\$212,662	\$964	\$1,037
96200 Other General Expenses	\$69	\$117,067	\$407,982		\$16,544		\$2,235,761		\$468,009	\$85,821		\$897,880
96210 Compensated Absences	\$7,991	\$3,440					\$134			\$24,307	\$371	
96300 Payments in Lieu of Taxes	\$0								\$23,459	\$47,746		
96400 Bad debt - Tenant Rents	\$1,690									\$19,991		
96500 Bad debt - Mortgages							\$1,706,279					
96600 Bad debt - Other	\$3,161								\$9,624	\$43,754		
96800 Severance Expense												
96000 Total Other General Expenses	\$12,911	\$120,507	\$407,982	\$0	\$16,544	\$0	\$3,942,174	\$0	\$501,092	\$221,619	\$371	\$897,880
96710 Interest of Mortgage (or Bonds) Payable									\$1,174,688	\$4,769,243		
96720 Interest on Notes Payable (Short and Long Term)	\$94,500											
96730 Amortization of Bond Issue Costs												
96700 Total Interest Expense and Amortization Cost	\$94,500	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,174,688	\$4,769,243	\$0	\$0
96900 Total Operating Expenses	\$1,277,000	\$280,905	\$610,373	\$0	\$34,571	\$0	\$4,103,006	\$0	\$4,839,795	\$11,240,551	\$89,030	\$956,595
97000 Excess of Operating Revenue over Operating Expenses	-\$392,099	\$0	\$2,661,161	\$248,290	\$0	\$3,102,929	-\$2,083,422	\$160,080,921	\$704,509	\$6,589,772	\$1,090,458	\$0
97100 Extraordinary Maintenance										\$6,059		
97200 Casualty Losses - Non-capitalized												
97300 Housing Assistance Payments			\$2,661,161								\$1,005,808	
97350 HAP Portability-In												
97400 Depreciation Expense	\$388,172								\$1,398,410	\$1,405,345		
97500 Fraud Losses												
97600 Capital Outlays - Governmental Funds												

**San Diego Housing Commission (CA063)**  
**San Diego, California**  
**Entity Wide Revenue and Expense Summary**  
**Fiscal Year End: 06/30/2016**

Submission Type: Audited/Single Audit

	14.881 Moving to Work Demonstration Program	14.239 HOME Investment Partnerships Program	93.602 New Assets for Independence Demonstration Program	9 Other Federal Program 2	2 State/Local	1 Business Activities	14.870 Resident Opportunity and Supportive Services	14.856 Lower Income Housing Assistance Program_Section 8: Moderate	Subtotal	ELIM	Total
93500 Labor								\$0			
93600 Sewer					\$2,905	\$268,858		\$0	\$960,504		\$960,504
93700 Employee Benefit Contributions - Utilities								\$0			
93800 Other Utilities Expense					\$29	\$35,064		\$0	\$39,831		\$39,831
93000 Total Utilities	\$0	\$0	\$0	\$0	\$14,642	\$1,371,247	\$0	\$0	\$3,513,647	\$0	\$3,513,647
94100 Ordinary Maintenance and Operations - Labor					\$991	\$346,859		\$0	\$944,491		\$944,491
94200 Ordinary Maintenance and Operations - Materials and Other					\$167	\$176,335		\$0	\$366,608		\$366,608
94300 Ordinary Maintenance and Operations Contracts	\$0	\$12			\$25,817	\$1,571,905		\$0	\$4,000,751		\$4,000,751
94500 Employee Benefit Contributions - Ordinary Maintenance					\$529	\$146,802		\$0	\$312,630		\$312,630
94000 Total Maintenance	\$0	\$12	\$0	\$0	\$27,504	\$2,241,901	\$0	\$0	\$5,624,480	\$0	\$5,624,480
95100 Protective Services - Labor								\$0	\$15,112		\$15,112
95200 Protective Services - Other Contract Costs						\$388,722		\$0	\$702,712		\$702,712
95300 Protective Services - Other						\$878		\$0	\$11,623		\$11,623
95500 Employee Benefit Contributions - Protective Services								\$0			
95000 Total Protective Services	\$0	\$0	\$0	\$0	\$0	\$389,600	\$0	\$0	\$729,447	\$0	\$729,447
96110 Property Insurance					\$1,261	\$56,848		\$0	\$133,661		\$133,661
96120 Liability Insurance	\$53,627				\$1,074	\$92,725		\$222	\$241,315		\$241,315
96130 Workmen's Compensation	\$105,065	\$8,553			\$1,731	\$211,035	\$106	\$447	\$441,053		\$441,053
96140 All Other Insurance	\$444				\$895	\$242,068		\$1	\$320,864		\$320,864
96100 Total Insurance Premiums	\$159,136	\$8,553	\$0	\$0	\$4,961	\$602,676	\$106	\$670	\$1,136,893	\$0	\$1,136,893
96200 Other General Expenses	\$132,989	\$2,002,069	\$32,407		\$213,222	\$10,233,747		\$0	\$16,843,567		\$16,843,567
96210 Compensated Absences	\$142,190	\$20,028			\$1,962	\$411,720		\$401	\$612,544		\$612,544
96300 Payments in Lieu of Taxes					\$33	\$6,133		\$0	\$77,371		\$77,371
96400 Bad debt - Tenant Rents	\$88				-\$465	\$91,857		\$0	\$113,161		\$113,161
96500 Bad debt - Mortgages		-\$1,111,855			-\$135,434	\$97,392		\$0	\$556,382		\$556,382
96600 Bad debt - Other	\$12,716				\$168	\$42,921		-\$212	\$112,132		\$112,132
96800 Severance Expense								\$0			
96000 Total Other General Expenses	\$287,983	\$910,242	\$32,407	\$0	\$79,486	\$10,883,770	\$0	\$189	\$18,315,157	\$0	\$18,315,157
96710 Interest of Mortgage (or Bonds) Payable					\$42,135	\$607,247		\$0	\$6,593,313		\$6,593,313
96720 Interest on Notes Payable (Short and Long Term)								\$0	\$94,500		\$94,500
96730 Amortization of Bond Issue Costs								\$0			
96700 Total Interest Expense and Amortization Cost	\$0	\$0	\$0	\$0	\$42,135	\$607,247	\$0	\$0	\$6,687,813	\$0	\$6,687,813
96900 Total Operating Expenses	\$17,149,869	\$2,078,346	\$32,407	\$0	\$439,176	\$28,190,438	\$7,202	\$61,871	\$71,391,135	-\$920,909	\$70,470,226
97000 Excess of Operating Revenue over Operating Expenses	-\$16,601,139	\$7,188,239	-\$64	\$0	\$383,875	\$23,936,801	\$0	\$405,132	\$187,315,363	\$0	\$187,315,363
97100 Extraordinary Maintenance						\$50,802		\$0	\$56,861		\$56,861
97200 Casualty Losses - Non-capitalized								\$0			
97300 Housing Assistance Payments	\$142,375,588							\$405,132	\$146,447,689		\$146,447,689
97350 HAP Portability-In	\$122,778							\$0	\$122,778		\$122,778
97400 Depreciation Expense					\$22,678	\$3,314,692		\$0	\$6,529,297		\$6,529,297
97500 Fraud Losses								\$0			
97600 Capital Outlays - Governmental Funds								\$0			

**San Diego Housing Commission (CA063)**  
**San Diego, California**  
**Entity Wide Revenue and Expense Summary**  
**Fiscal Year End: 06/30/2016**

Submission Type: Audited/Single Audit

	Project Total	14.900 Lead-Based Paint Hazard Control in Privately- Owned Housing	14.267 Continuum of Care Program	14.OPS MTW Demonstration Program for Low Rent	94.019 Social Innovation Fund	14.CFP MTW Demonstration Program for Capital Fund	14.218 Community Development Block Grants/Entitlement Grants	14.HCV MTW Demonstration Program for HCV program	6.1 Component Unit - Discretely Presented	6.2 Component Unit - Blended	14.880 Family Unification Program (FUP)	14.231 Emergency Shelter Grants Program
97700 Debt Principal Payment - Governmental Funds												
97800 Dwelling Units Rent Expense												
90000 Total Expenses	\$1,665,172	\$280,905	\$3,271,534	\$0	\$34,571	\$0	\$4,103,006	\$0	\$6,238,205	\$12,651,955	\$1,094,838	\$956,595
10010 Operating Transfer In	\$3,784,163						\$7,068			\$0		
10020 Operating transfer Out	-\$411,732			-\$248,290		-\$3,102,929	\$0	-\$160,080,921		-\$5,788,770		
10030 Operating Transfers from/to Primary Government												
10040 Operating Transfers from/to Component Unit												
10050 Proceeds from Notes, Loans and Bonds												
10060 Proceeds from Property Sales												
10070 Extraordinary Items, Net Gain/Loss												
10080 Special Items (Net Gain/Loss)									\$6,827,086			
10091 Inter Project Excess Cash Transfer In												
10092 Inter Project Excess Cash Transfer Out												
10093 Transfers between Program and Project - In												
10094 Transfers between Project and Program - Out												
10100 Total Other financing Sources (Uses)	\$3,372,431	\$0	\$0	-\$248,290	\$0	-\$3,102,929	\$7,068	-\$160,080,921	\$6,827,086	-\$5,788,770	\$0	\$0
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	\$2,592,160	\$0	\$0	\$0	\$0	\$0	-\$2,076,354	\$0	\$6,133,185	-\$610,402	\$84,650	\$0
11020 Required Annual Debt Principal Payments	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$425,600	\$1,586,272	\$0	\$0
11030 Beginning Equity	\$14,307,929	\$0	\$0	\$0	\$0	\$0	\$12,055,546	\$0	\$4,344,588	-\$34,869,440	\$301,328	\$0
11040 Prior Period Adjustments, Equity Transfers and Correction of Errors									\$0			
11050 Changes in Compensated Absence Balance												
11060 Changes in Contingent Liability Balance												
11070 Changes in Unrecognized Pension Transition Liability												
11080 Changes in Special Term/Severance Benefits Liability												
11090 Changes in Allowance for Doubtful Accounts - Dwelling Rents												
11100 Changes in Allowance for Doubtful Accounts - Other												
11170 Administrative Fee Equity												
11180 Housing Assistance Payments Equity												
11190 Unit Months Available	1848							180984	3960	15060	1200	
11210 Number of Unit Months Leased	1796							174714	3918	14698	976	
11270 Excess Cash	\$8,064,176											
11610 Land Purchases	\$0											
11620 Building Purchases	\$0											
11630 Furniture & Equipment - Dwelling Purchases	\$0											
11640 Furniture & Equipment - Administrative Purchases	\$0											
11650 Leasehold Improvements Purchases	\$0											
11660 Infrastructure Purchases	\$0											
13510 CFFP Debt Service Payments	\$0											
13901 Replacement Housing Factor Funds	\$0											



**San Diego Housing Commission (CA063)**  
**San Diego, California**  
**Entity Wide Revenue and Expense Summary**  
**Fiscal Year End: 06/30/2016**

Submission Type: Audited/Single Audit

	14.881 Moving to Work Demonstration Program	14.239 HOME Investment Partnerships Program	93.602 New Assets for Independence Demonstration Program	9 Other Federal Program 2	2 State/Local	1 Business Activities	14.870 Resident Opportunity and Supportive Services	14.856 Lower Income Housing Assistance Program_Section 8: Moderate	Subtotal	ELIM	Total
97700 Debt Principal Payment - Governmental Funds								\$0			
97800 Dwelling Units Rent Expense								\$0			
90000 Total Expenses	\$159,648,235	\$2,078,346	\$32,407	\$0	\$461,854	\$31,555,932	\$7,202	\$467,003	\$224,547,760	-\$920,909	\$223,626,851
10010 Operating Transfer In	\$163,432,140	\$102,627			\$183,062	\$6,256,958		\$0	\$173,766,018	-\$173,766,018	\$0
10020 Operating transfer Out	-\$3,351,219	\$0	-\$1		\$0	-\$782,156		\$0	-\$173,766,018	\$173,766,018	\$0
10030 Operating Transfers from/to Primary Government								\$0			
10040 Operating Transfers from/to Component Unit								\$0			
10050 Proceeds from Notes, Loans and Bonds								\$0			
10060 Proceeds from Property Sales								\$0			
10070 Extraordinary Items, Net Gain/Loss								\$0			
10080 Special Items (Net Gain/Loss)								\$0	\$6,827,086		\$6,827,086
10091 Inter Project Excess Cash Transfer In								\$0			
10092 Inter Project Excess Cash Transfer Out								\$0			
10093 Transfers between Program and Project - In								\$0			
10094 Transfers between Project and Program - Out								\$0			
10100 Total Other financing Sources (Uses)	\$160,080,921	\$102,627	-\$1	\$0	\$183,062	\$5,474,802	\$0	\$0	\$6,827,086	\$0	\$6,827,086
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	\$981,416	\$7,290,866	-\$65	\$0	\$544,259	\$26,046,107	\$0	\$0	\$40,985,822	\$0	\$40,985,822
11020 Required Annual Debt Principal Payments	\$0	\$0	\$0	\$0	\$0	\$695,950	\$0	\$0	\$2,707,822		\$2,707,822
11030 Beginning Equity	\$6,438,437	\$172,673,141	\$65	\$21,625	\$9,833,494	\$302,817,798	\$0	\$132,168	\$488,056,679		\$488,056,679
11040 Prior Period Adjustments, Equity Transfers and Correction of Errors						\$0		\$0	\$0		\$0
11050 Changes in Compensated Absence Balance								\$0			
11060 Changes in Contingent Liability Balance								\$0			
11070 Changes in Unrecognized Pension Transition Liability								\$0			
11080 Changes in Special Term/Severance Benefits Liability								\$0			
11090 Changes in Allowance for Doubtful Accounts - Dwelling Rents								\$0			
11100 Changes in Allowance for Doubtful Accounts - Other								\$0			
11170 Administrative Fee Equity								\$0			
11180 Housing Assistance Payments Equity								\$0			
11190 Unit Months Available					98	10488		46	213684		213684
11210 Number of Unit Months Leased					64	9682		40	205888		205888
11270 Excess Cash								\$0	\$8,064,176		\$8,064,176
11610 Land Purchases								\$0	\$0		\$0
11620 Building Purchases								\$0	\$0		\$0
11630 Furniture & Equipment - Dwelling Purchases								\$0	\$0		\$0
11640 Furniture & Equipment - Administrative Purchases								\$0	\$0		\$0
11650 Leasehold Improvements Purchases								\$0	\$0		\$0
11660 Infrastructure Purchases								\$0	\$0		\$0
13510 CFFP Debt Service Payments								\$0	\$0		\$0
13901 Replacement Housing Factor Funds								\$0	\$0		\$0



SAN DIEGO  
HOUSING  
COMMISSION

# Statistical Section (Unaudited)



## *We're About People*

The SDHC Achievement Academy provides participants opportunities for a better financial future. It's a state-of-the-art learning and skills center and computer lab that offers workshops emphasizing career planning and job skills to become more financially self-reliant.





### San Diego Housing Commission

#### Statistical Section (Unaudited)

This part of the Comprehensive Annual Financial Report represents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about SDHC's overall financial health. These schedules are for the Primary Government only and do not include activity of the discretely presented component units of HDP. The following are the categories of the schedules that are included in this Section:

#### **Financial Trends**

These schedules contain trend information to help the reader understand how SDHC's financial performance and well-being have changed over time. These schedules can be viewed on pages 129 - 131.

#### **Revenue Capacity**

This schedule contains information to help the reader assess SDHC's most significant revenue source. This schedule can be viewed on page 133.

#### **Debt Capacity**

This schedule presents information to help the reader assess the affordability of SDHC's current level of outstanding debt. This schedule can be viewed on page 135.

#### **Demographic and Economic Information**

These schedules offer demographic and economic indicators to help the reader understand the environment within which SDHC's financial activities take place. These schedules can be viewed on pages 137 - 141.

#### **Operating Information**

These schedules contain service and infrastructure data to help the reader understand how the information in SDHC's financial report relates to the services SDHC provides and the activities it performs. These schedules can be viewed on pages 143 to 150.

## **FINANCIAL TRENDS**



San Diego Housing Commission  
Net Position by Component (Unaudited)  
Ten Years Ending June 30, 2016

<u>Fiscal Year</u>	<u>Net Investment in Capital Assets</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total Net Position</u>
2007	\$ 67,893,139	\$ 86,943,780	\$ 141,958,499	\$ 296,795,418
2008	68,982,385	122,520,904	137,314,102	328,817,391
2009	69,458,302	128,863,010	152,042,313	350,363,625
2010	39,788,284	129,062,731	213,986,961	382,837,976
2011	43,092,084	137,161,661	224,260,898	404,514,643
2012	54,768,792	142,430,835	225,494,849	422,694,476
2013	55,992,979	151,444,156	237,319,083	444,756,218
2014	54,862,209	160,498,486	241,567,614	456,928,309
2015	68,871,666	170,194,739	244,645,686	483,712,091
2016	73,122,616	176,980,821	268,461,293	518,564,730

Source: Annual Financial Statements



## San Diego Housing Commission

## Revenues, Expenses and Changes in Net Position (Unaudited)

Last Ten Years Ending June 30, 2016

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Operating revenues</b>										
Dwelling rental income	\$ 28,090,296	\$ 26,450,075	\$ 25,750,939	\$ 25,669,589	\$ 25,082,830	\$ 24,309,910	\$ 21,193,199	\$ 21,431,650	\$ 15,001,921	\$ 9,214,737
Land lease and other rental income	2,668,438	2,245,059	2,119,188	2,023,344	1,892,027	1,970,080	1,233,941	1,368,541	1,292,869	893,008
Fee revenue	3,866,857	2,947,558	2,145,715	2,030,042	1,886,252	2,867,606	1,813,413	1,648,597	2,085,358	2,423,510
Shared equity income	-	-	-	-	171,422	158,270	181,535	206,068	694,263	1,335,361
Other revenue	3,777,214	2,767,714	3,222,683	1,927,430	1,120,603	2,076,205	3,365,390	1,439,749	845,374	786,219
Total operating revenues	38,402,805	34,410,406	33,238,525	31,650,405	30,153,134	31,382,071	27,787,478	26,094,605	19,919,785	14,652,835
<b>Operating expenses</b>										
Administrative expenses	31,826,310	29,500,978	28,839,617	28,713,564	26,870,807	24,686,591	23,208,287	19,959,913	18,974,670	18,869,659
Tenant services	1,626,314	1,541,169	1,370,247	1,919,200	2,207,747	2,450,010	1,862,540	1,687,646	1,809,223	1,701,047
Asset management	8,895,547	9,505,111	8,885,279	7,790,710	7,470,695	10,130,088	7,074,276	6,664,735	7,779,665	7,950,607
General expenses	2,072,713	985,363	2,266,935	1,201,718	2,615,886	3,840,050	4,587,653	3,286,471	2,428,251	2,627,940
Grant expense	15,753,280	11,103,144	17,115,718	6,650,674	5,879,572	4,698,932	5,065,696	4,561,061	5,618,803	6,461,210
Housing assistance	146,570,467	145,836,071	147,311,387	150,905,154	147,823,240	145,876,110	144,790,881	139,234,699	126,587,352	113,252,745
Depreciation	5,130,888	4,916,809	4,800,693	4,113,552	3,920,321	4,047,879	2,595,635	2,367,288	2,980,926	3,628,646
Total operating expenses	211,875,519	203,388,645	210,589,876	201,294,572	196,788,268	195,729,660	189,184,968	177,761,813	166,178,890	154,491,854
Operating loss	(173,472,714)	(168,978,239)	(177,351,351)	(169,644,167)	(166,635,134)	(164,347,589)	(161,397,490)	(151,667,208)	(146,259,106)	(139,839,019)
<b>Nonoperating revenues (expenses):</b>										
Grant revenue	200,005,483	191,703,603	186,987,313	188,240,947	182,353,583	184,749,521	189,101,021	169,455,958	172,108,621	156,165,071
Investment income	9,988,417	9,742,843	9,118,073	8,637,551	8,774,498	6,974,862	7,312,333	6,374,263	6,858,050	7,339,612
Gain/loss on sale of capital assets	3,844,578	-	-	38,220	(49,695)	(683)	-	-	(132,480)	3,560,143
Gain on fair market value of interest swap	-	-	-	-	-	859,125	459,836	(831,228)	-	-
Interest expense	(5,513,125)	(5,684,425)	(5,879,510)	(5,913,243)	(6,263,417)	(6,558,569)	(3,001,349)	(1,785,551)	(1,772,989)	(1,278,512)
Net nonoperating revenues	208,325,353	195,762,021	190,225,876	191,003,475	184,814,969	186,024,256	193,871,841	173,213,442	177,061,202	165,786,314
Total revenues and expenses	34,852,639	26,783,782	12,874,525	21,359,308	18,179,835	21,676,667	32,474,351	21,546,234	30,802,097	25,947,295
Capital grants	-	-	-	-	-	-	-	-	1,219,877	651,733
Change in net assets	\$ 34,852,639	\$ 26,783,782	\$ 12,874,525	\$ 21,359,308	\$ 18,179,835	\$ 21,676,667	\$ 32,474,351	\$ 21,546,234	\$ 32,021,974	\$ 26,599,028



## San Diego Housing Commission

## Capital Assets by Category (Unaudited)

Last Ten Years Ending June 30, 2016

CATEGORY	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Land	\$ 68,081,575	\$ 68,369,250	\$ 63,186,873	\$ 63,036,133	\$ 60,563,275	\$ 60,440,951	\$ 39,022,937	\$ 29,543,943	\$ 29,651,723	\$ 29,436,163
Construction in progress	8,296,759	2,267,262	751,305	1,854,210	9,831,387	465,800	4,319,426	7,000,730	11,611,732	10,607,415
Buildings	98,468,109	98,468,109	88,811,413	88,811,413	84,722,349	84,722,349	60,954,269	56,403,458	56,372,153	79,665,542
Building improvements	36,008,102	33,581,403	33,581,403	30,811,213	17,719,475	17,719,475	12,227,363	12,368,642	7,901,115	24,396,791
Furniture and equipment	4,495,410	4,347,152	4,105,103	3,781,552	3,494,073	3,213,224	2,930,854	2,844,786	2,463,141	3,282,749
Total capital assets	215,349,955	207,033,176	190,436,097	188,294,521	176,330,559	166,561,799	119,454,849	108,161,559	107,999,864	147,388,660
Less accumulated depreciation										
Buildings	20,922,471	18,418,147	16,115,003	13,852,095	11,620,965	9,464,032	8,059,821	7,521,776	6,105,932	28,012,583
Building improvements	12,332,422	10,056,086	7,816,863	5,678,975	4,087,090	2,774,997	2,233,130	2,048,503	1,521,762	17,140,068
Furniture and equipment	3,960,054	3,741,342	3,366,900	2,967,003	2,731,187	2,309,871	1,904,844	1,363,573	938,870	1,128,894
Total accumulated depreciation	37,214,947	32,215,575	27,298,766	22,498,073	18,439,242	14,548,900	12,197,795	10,933,852	8,566,564	46,281,545
Net capital assets	178,135,008	174,817,601	163,137,331	165,796,448	157,891,317	152,012,899	107,257,054	97,227,707	99,433,300	101,107,115
Related debt	105,012,392	105,945,935	108,275,122	110,505,903	103,122,525	108,920,815	67,468,770	27,769,404	30,450,915	33,213,976
Invested in capital assets, net of related debt	\$ 73,122,616	\$ 68,871,666	\$ 54,862,209	\$ 55,290,545	\$ 54,768,792	\$ 43,092,084	\$ 39,788,284	\$ 69,458,303	\$ 68,982,385	\$ 67,893,139

Source: Annual Financial Statements

## REVENUE CAPACITY





San Diego Housing Commission  
Revenue on a Gross Basis (Unaudited)  
Last Ten Years Ending June 30, 2016

DESCRIPTION	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Revenues (gross):										
Operating revenues	\$ 38,402,805	\$ 34,410,406	\$ 33,238,525	\$ 31,650,405	\$ 30,153,134	\$ 31,382,071	\$ 27,787,478	\$ 26,094,605	\$ 19,919,784	\$ 14,652,835
Subsidies and grants	200,005,483	191,703,603	186,987,313	188,240,947	182,353,583	184,749,521	189,101,021	169,455,958	173,328,498	156,816,804
Investment income	9,988,417	9,742,843	9,118,073	8,637,551	8,774,498	6,974,862	7,312,333	6,374,263	6,858,080	7,339,612
Gain/loss on sale of capital assets	3,844,578	-	-	38,220	(49,695)	(683)	-	-	(132,480)	3,560,143
Other	-	-	-	-	-	859,125	459,836	-	-	-
Total revenues	<u>\$252,241,283</u>	<u>\$235,856,852</u>	<u>\$229,343,911</u>	<u>\$228,567,123</u>	<u>\$221,231,520</u>	<u>\$223,964,896</u>	<u>\$224,660,668</u>	<u>\$201,924,826</u>	<u>\$199,973,882</u>	<u>\$182,369,394</u>

## **DEBT CAPACITY**



## San Diego Housing Commission

## Outstanding Debt Related to Capital Assets (Unaudited)

Last Ten Years Ending June 30, 2016

<b>Fiscal year</b>	<b>Notes Payable</b>		<b>Capital Assets Less Accumulated Depreciation</b>	<b>Ratio of total debt to capital assets*</b>
2007	\$ 33,213,976		\$ 101,107,115	32.85%
2008	30,450,915		99,433,300	30.62%
2009	27,769,404		97,227,707	28.56%
2010	67,468,770		107,257,057	62.90%
2011	125,321,940	**	152,012,899	71.65%
2012	117,326,102	***	157,891,317	74.31%
2013	115,500,409	****	165,796,448	69.66%
2014	112,993,522	*****	163,137,331	69.26%
2015	109,913,912	*****	174,814,601	62.87%
2016	106,884,501	*****	178,135,008	60.00%

Source: Annual Financial Statements

\* Percentage of personal income is not available

\*\* The total notes payable of \$125 million includes \$16 million of unspent loan proceeds.

\*\*\* The total notes payable of \$117 million includes \$14 million of unspent loan proceeds.

\*\*\*\* The total notes payable of \$115 million includes \$5 million of unspent loan proceeds.

\*\*\*\*\* The total notes payable of \$113 million includes \$5 million of unspent loan proceeds.

\*\*\*\*\* The total notes payable of \$110 million includes \$4 million of unspent loan proceeds.

\*\*\*\*\* The total notes payable of \$107 million includes \$2 million of unspent loan proceeds.

## **DEMOGRAPHIC AND ECONOMIC INFORMATION**



**San Diego Housing Commission**  
**Demographic Statistics - Ten Year Trend**

**Population**

Year	United States	Change from Prior Period	City of San Diego	Change from Prior Period
2005-06	298,754,819	0.63%	1,305,625	-0.03%
2006-07	301,621,157	0.96%	1,316,837	0.86%
2007-08	304,059,724	0.81%	1,336,865	1.52%
2008-09	307,006,550	0.97%	1,333,617	-0.24%
2009-10	308,745,538	0.57%	1,359,132	1.91%
2010-11	311,591,917	0.92%	1,311,882	-3.48%
2011-12	312,780,968	0.38%	1,321,315	0.72%
2012-13	316,122,143	1.07%	1,326,238	0.37%
2013-14	318,853,648	0.86%	1,345,895	1.48%
2014-15	321,188,034	0.73%	1,368,061	1.65%
2015-16	323,882,704	0.84%	1,391,676	1.73%

Source: U.S. Department of Commerce, Bureau of Economic Analysis



**San Diego Housing Commission  
Demographic and Economic Statistics for the City of San Diego  
Ten Years Ended June 30, 2016**

**Population and Personal Income - City of San Diego**

<b>Year</b>	<b>Population<sup>1</sup></b>	<b>Personal Income<sup>2</sup> (1,000s)</b>	<b>Per Capita Personal Income</b>	<b>Unemployment Rate<sup>3</sup>(%)</b>
2005-06	1,305,625	\$ 37,749,536	\$ 28,791	4.3
2006-07	1,316,837	39,302,317	29,846	4.0
2007-08	1,336,865	42,678,078	31,924	4.6
2008-09	1,333,617	42,857,116	32,136	6.0
2009-10	1,376,173	43,522,125	31,625	9.7
2010-11	1,311,882	40,336,435	30,747	10.2
2011-12	1,321,315	42,754,529	32,358	9.5
2012-13	1,326,238	43,540,765	32,830	8.9
2013-14	1,345,895	45,869,487	34,081	7.5
2014-15	1,368,061	46,297,920	33,842	4.6
2015-16	1,391,676	47,718,552	34,289	4.9

**Footnotes:**

<sup>1</sup>Population projections are provided by the California Department of Financial Projections

<sup>2</sup>Income data is provided by the United States Census Data and is adjusted for inflation

<sup>3</sup>Unemployment data is provided by the EDD's Bureau of Labor Statistics Department

Sources: MuniServices, LLC, and City of San Diego Comprehensive Annual Financial Reports



**CITY OF SAN DIEGO**  
**PRINCIPAL EMPLOYERS (UNAUDITED)**  
**Current Year and Nine Years Ago**

<b>Employer</b>	<b>Number of Employees</b>	<b>Percentage of Total Employment <sup>1</sup></b>
<b>For the Fiscal Year Ended June 30, 2016</b>		
Naval Base San Diego (1)	38,455	5.47%
University Of California San Diego (2)	29,986	4.27%
Sharp Healthcare (3)	17,807	2.53%
County of San Diego	17,384	2.47%
San Diego Unified School District	14,120	2.01%
Qualcomm Inc (4)	11,600	1.65%
Scripps Health (5)	10,853	1.54%
City of San Diego	10,003	1.42%
Kaiser Permanente	8,385	1.19%
San Diego Community College District	5,580	0.79%
Total Top Employers	164,173	23.37%
<b>For the Fiscal Year Ended June 30, 2007</b>		
Naval Base San Diego (1)	71,423	10.86%
County of San Diego	17,040	2.59%
San Diego Unified School District	15,800	2.40%
Scripps Health (5)	11,000	1.67%
City of San Diego	10,685	1.62%
Kaiser Permanente	4,992	0.76%
San Diego Community College District	4,778	0.73%
Science Applications International	44,000	6.69%
Sempra Energy	5,600	0.85%
Solar Turbines	5,500	0.84%
Total Top Employers	190,818	18.15%

Source: MuniServices, LLC, and Fiscal Year 2007 Prior published CAFR  
 Results based on direct correspondence with city's local businesses.

- 1.) Includes Navy, Marine and Civil Services personnel.
- 2.) Includes full and part time, academic and support staff
- 3.) Count is county-wide
- 4.) Count is from prior year
- 5.) Count includes 3 hospital sites in San Diego. Previous count was countywide.



**San Diego Housing Commission  
Resident Household Information - Unaudited  
Housing Choice Voucher Program**

<b>Resident Members Per Household</b>			<b>Number Bedrooms Per Household</b>		
<b>Categories</b>	<b>Households</b>	<b>Percent</b>	<b>Categories</b>	<b>Households</b>	<b>Percent</b>
1 Member	6,146	40.6%	Studio	1,131	7.5%
2 Members	3,461	22.9%	1 Bedroom	3,770	24.9%
3 Members	1,925	12.7%	2 Bedrooms	5,502	36.4%
4 Members	1,492	9.9%	3 Bedrooms	3,396	22.4%
5 Members	1,059	7.0%	4 Bedrooms	1,124	7.4%
6 Member	539	3.6%	5 Bedrooms	175	1.2%
7 Members	252	1.7%	6 Bedrooms	23	0.2%
8 Members	119	0.8%	7 Bedrooms	1	0.0%
9 Member	65	0.4%			
10 + Members	64	0.4%			
<b>Total</b>	<b>15,122</b>	<b>100.0%</b>	<b>Total</b>	<b>15,122</b>	<b>100.0%</b>

**Income Ranges (All Sources)**

<b>Annual Income Ranges</b>	<b>No. of Households</b>	<b>Percentage</b>
\$ 0-.99	303	2.0%
\$ 1-9,999	1,961	13.0%
\$ 10,000-19,999	8,315	55.0%
\$ 20,000-29,999	2,582	17.1%
\$ 30,000-39,999	1,216	8.0%
\$ 40,000-49,999	488	3.2%
\$ 50,000 +	257	1.7%
<b>Total</b>	<b>15,122</b>	<b>100.0%</b>

Source: San Diego Housing Commission Statistics





**San Diego Housing Commission  
Years in Housing Choice Voucher Program**

**Length of Residency - Current**

<u>Years in Housing</u>	<u>Households</u>	<u>Quantity</u>
<1	426	2.8%
1	1386	9.2%
2	1040	6.9%
3	317	2.1%
4	820	5.4%
5	857	5.7%
6	365	2.4%
7	512	3.4%
8	406	2.7%
9	1987	13.1%
10	394	2.6%
11	947	6.3%
12	506	3.3%
13	330	2.2%
14	748	4.9%
15	1408	9.3%
16	381	2.5%
17	386	2.6%
18	319	2.1%
19	282	1.9%
20+	1305	8.6%
Total	<u>15,122</u>	<u>100.0%</u>

Source: San Diego Housing Commission Statistics

## **OPERATING INFORMATION**



**San Diego Housing Commission  
Operating Information  
Property Characteristic and Dwelling Units**

**San Diego Housing Commission Local Units**

<b>Address</b>		<b>No. Units</b>	<b>Year Built</b>
4720 - 4722	34th Street	3	1982
4756 - 4758	35th Street	4	1982
3010 #A - B	39th Street	2	1975
3617 - 3619	42nd Street	4	1984
2716 - 2718	44th Street	4	1983
2734 - 2736	44th Street	4	1983
4078 #A - D	47th Street	4	1964
4286 - 4292	48th Street	4	1960
3280	A Street	2	1982
4207 - 4209	Altadena Avenue	2	1984
4123	Arey Drive	1	1970
4080	Arizona Street	4	1987
2766	Cardinal Road	2	1982
4314	Darwin way	1	1970
2326 - 2332	East Jewett Street	4	1944
4334	Ebersole Drive	1	1970
4181	Enero Street	1	1970
2477 - 2477 1/2	Fairmount Avenue	4	1967
2479 - 2481			
3081 - 3083	Hawthorn Street	4	1983
1170	Ilexey Avenue	1	1970
1366	Ilexey Avenue	1	1970
4230	Kimsue Way	1	1970
1255	Kostner Drive	1	1970
4259	Layla Court	1	1970
4276	Layla Court	1	1970
4256	Layla Way	1	1970
4269	Layla Way	1	1970
4274	Layla Way	1	1970



**San Diego Housing Commission Local Units - Continued**

<b>Address</b>	<b>No. Units</b>	<b>Year Built</b>
4339 Marcia Court	1	1970
4074 Marcwade Drive	1	1970
4150 Marcwade Drive	1	1970
4186 Marcwade Drive	1	1970
4293 Marcwade Drive	1	1970
4239 Marge Way	1	1971
4331 Marge Way	1	1970
4334 Marge Way	1	1970
4890 Naples Street	4	1982
1152 Nevin Street	1	1970
8505 Noeline Avenue	1	1975
4050 - 4056 Oakcrest Drive	4	1960
5974 Old Memory Lane	1	1941
4034 Peterlynn Court	1	1970
1232 Peterlynn Drive	1	1970
1327 Peterlynn Drive	1	1970
1405 Peterlynn Drive	1	1970
1506 Peterlynn Drive	1	1970
1530 Peterlynn Drive	1	1970
4024 Peterlynn Way	1	1970
2325 Rachel Avenue	3	1982
1128 Ransom Street	1	1970
1145 Ransom Street	1	1970
1169 Ransom Street	1	1970
5955 #1 - 4 Streamview Drive	4	1963
4233 Stu Court	1	1970
3755 - 3757 Swift Avenue	4	1997
6511 - 6517 Tait Street	4	1952
1041 Twining Avenue	1	1970
1144 Twining Avenue	1	1970
1250 Twining Avenue	1	1970
1317 Twining Avenue	1	1970
3630 - 3632 Van Dyke Avenue	4	1982

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**Belden SDHC FNMA LLC**

<b>Address</b>	<b>No. Units</b>	<b>Year Built</b>
7705 - 7795 Belden Street	243	1983
	<b>243</b>	

**Northern SDHC FNMA LLC**

<b>Address</b>		<b>No. Units</b>	<b>Year Built</b>
3501	1st Avenue	22	1976
7105 - 7120	Eastman Street	36	1989
7085 - 7095	Levant Street	14	1989
7526 - 7580	Fulton Street	31	1996
2615 - 2665	Genesee Avenue	11	1983
4131	Maryland Street	24	1982
		<b>138</b>	

**Central SDHC FNMA LLC**

<b>Address</b>		<b>No. Units</b>	<b>Year Built</b>
2932	30th street	5	1986
3012	30th street	5	1986
3030	30th street	5	1988
3217	30th street	5	1986
4729	32nd street	5	1985
4541 #1 - 8	33rd street	8	1965
4632	33rd street	5	1986
4751	33rd street	8	1968
4254	36th street	5	1988
4164 #1 - 8	37th street	8	1962
4343	38th street	5	1989
4575 - 4579	38th street	8	1985
3755 - 3761	Alabama Street	8	1985
3974 - 3984	Bancroft Street	14	1988
3850	Cherokee Avenue	5	1986
4054 - 4060 1/2	Cherokee Avenue	8	1961
4360	Cherokee Avenue	5	1986
4081 - 4087 1/2	Florida Street	8	1960
4450 - 4456 1/2	Georgia Street	8	1966
7891 - 7899	Golfcrest Drive	9	1997
3350 - 3356 1/2	Grim Avenue	8	1959
4637 - 4643 1/2	Hamilton Street	8	1956
3125	Ivy Street	5	1988
4381 - 4387	Louisiana Street	8	1968
2727 - 2729	Meade Avenue	6	1964
2739 - 2745	Meade Avenue	6	1954
4352 #1 - 8	Oregon Street	8	1960
4043	Wilson Avenue	5	1986
		<b>185</b>	



**Northern SDHC FHA, LLC**

<b>Address</b>	<b>No. Units</b>	<b>Year Built</b>
12643 - 12687 El Camino Real	45	1995
2701 - 2711 Figueroa Boulevard	6	1966
8637 - 8643 Glenhaven Street	4	1971
8649 - 8655 Glenhaven Street	4	1962
8661 - 8667 Glenhaven Street	4	1962
8701 - 8707 Glenhaven Street	4	1962
2045 - 2049 Grand Avenue	6	1990
2644 Hornblend Street	5	1989
8714 - 8720 Hurlbut Street	4	1962
8726 - 8732 Hurlbut Street	4	1971
8792 Mira Mesa Boulevard	5	1978
8816 Mira Mesa Boulevard	5	1978
5071 - 5077 1/2 Muir Avenue	8	1960
4055 - 4083 Pulitzer Place	50	1985
	<b>154</b>	

**Southern SDHC FHA, LLC**

<b>Address</b>	<b>No. Units</b>	<b>Year Built</b>
2005 - 2065 Alaquinas Drive	66	1983
121-125 Averil Road	14	1993
178 - 190 Calle Primera	71	1984
2381 - 2389 Grove Avenue	41	1985
1351 - 1359 Hollister Street	20	1983
402 - 412 Sycamore Road (East)	24	1985
281 - 289 Sycamore Road (North)	24	1985
391 - 417 Sycamore Road (West)	41	1985
	<b>301</b>	



**Central SDHC FHA, LLC**

<b>Address</b>		<b>No. Units</b>	<b>Year Built</b>
2628 - 2630	44th street	8	1983
4225	44th street	6	1990
4261	45th street	6	1989
4566	51st street	5	1988
3051	54th street	7	1989
4164	Altadena Avenue	6	1961
4479 - 4481	Altadena Avenue	8	1989
4560	Altadena Avenue	8	1960
2883	Boston Avenue	5	1993
2955	Boston Avenue	5	1993
4147 - 4157	Chamoune Avenue	6	1983
4416 #1 - 8	Highland Avenue	8	1980
4205 - 4215	Juniper Street	20	1983
4273 - 4283	Juniper Street	24	1982
4390	Maple Street	6	1983
4451 - 4459	Market Street	20	1989
5316	Meade Avenue	30	1981
4180 - 4182	Poplar Street	9	1985
5326 - 5328	Rex Avenue	4	1984
5330 - 5332 1/2	Rex Avenue	4	1967
5359 - 5389	Santa Margarita	32	1983
7281 - 7289	Saranac Street	7	1996
		<b>234</b>	



**Other Program Housing Units**

Address		No. Units	Year Built	Status
2420 #A - H	44th Street	8	1982	Scattered Sites
3222 - 24	Camulos Street	12	1982	Scattered Sites
3919 #1 - 8	Mason Street	8	1982	Scattered Sites
5385 - 5389	Trojan Avenue	3	1982	Scattered Sites
4095 #A - D	Valetta Street	4	1982	Scattered Sites
605 - 695	Picador Boulevard	78	1984	Public Housing
325-415	South 33rd Street	40	1999	Public Housing
2055 - 2095	Via Las Cumbres	36	1984	Public Housing
10101 - 10191	Maya Linda Road	132	1978	SDHC Mngt Units
2052 - 2098	Via Las Cumbres	84	1984	SDHC Mngt Units
4262-4268	44th Street	4	2009	SDHC Mngt Units
4395	El Cajon Boulevard	33	2009	SDHC Mngt Units
6847	Potomac Street	172	1989	SDHC Mngt Units
1301	Fifth Avenue	130	1914	SDHC Mngt Units
5330	Orange Avenue	71	1985	SDHC Mngt Units
7720-7780	Belden Street	120	1986	SDHC Mngt Units
2170-2172	Front Street	34	1913	Operated by HDP
827	C Street	73	1910	Down for Rehabilitation
<b>Total Other Program Housing Units</b>		<b>1042</b>		

**Total Commission and LLC units** **2,414**

**Other Program Housing Units - Partnerships\***

Address		No. Units	Development/Partner
4914-98	Logan Avenue	112	Arbor Village/LINC Housing
4321	52nd Street	88	Dawson Avenue/Chelsea/HDP
5207	52nd Place	75	Casa Colina/HDP
1194	Hollister St	50	Riverwalk Apts/Affirmed Housing Group
5391 & 5411-25	Santa Margarita St	49	Vista Grande/Wakeland
1985	National Ave	92	Estrella del Mercado/Chelsea
1815-1874	Hancock Street	85	Mission Apts/AMCAL Multi Housing Inc.
13481-13483	Silver Ivy Lane	21	Park Terramar/Chelsea
<b>Total Partnership Units</b>		<b>572</b>	

**Combined total units** **2,986**

\*SDHC owns the land and has the option to purchase the building at the end of the tax credit compliance period





## Supplementary Information (Unaudited)

### San Diego Housing Commission Employee Demographics - Unaudited As of June 30, 2016

<u>Seniority of Employees</u>			<u>Racial Composition</u>		
<u>Categories</u>	<u>Number</u>	<u>Percent</u>	<u>Categories</u>	<u>Number</u>	<u>Percent</u>
Less than 3 years	108	37%	American Indian or Alaska Native, White	2	1%
3 to 5 years	39	13%	Asian	22	7%
6 to 9 years	48	16%	Black or African American	29	10%
10 to 19 years	53	18%	Hispanic or Latino	111	38%
20 to 29 years	32	11%	Native Hawaiian or Other Pacific Islander	2	1%
30 years and over	<u>14</u>	5%	Two or More Races	13	4%
Grand Total	<u>294</u>		White	113	38%
			Other	<u>2</u>	1%
			Grand Total	<u>294</u>	

Source: ADP Employees HRMS, Information provided by San Diego Housing Commission HR Department includes Direct hires



### San Diego Housing Commission Number of Employees by Department

Department:	2016	2015	2014	2013	2012	2011	2010	2009	2008
Board & Executive Functions	7	6	8	5	4	17	16	8	3
Business Services	44	41	37	35	26	23	23	23	18
Community Relations & Communications	8	6	7	5	7	4	4	4	0
Development & Asset Management	0	0	0	0	0	0	0	0	60
External Affairs	0	0	12	12	11	0	0	0	0
Financial Services	22	24	25	24	25	21	20	19	17
Housing Finance	12	0	0	0	0	0	0	0	40
Housing Innovations	12	6	0	0	0	0	0	0	0
Housing Development Partners	4	3	3	3	3	0	0	0	0
Policy & Public Affairs	0	0	0	0	5	0	0	0	7
Real Estate Development	70	75	75	80	77	92	90	87	0
Rental Assistance Program	115	105	107	109	110	105	106	109	91
	294	266	274	273	268	262	259	250	236

Source: Information provided by San Diego Housing Commission HR Department ADP Employees HRMS  
Beginning with fiscal year 2008, the San Diego Housing Commission will accumulate ten years of data



**San Diego Housing Commission**

**Single Audit Reports**

**June 30, 2016**

# San Diego Housing Commission

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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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the San Diego Housing Commission ("SDHC"), a component unit of the City of San Diego, California, and its discretely presented component units, which comprise the statement of net position as of June 30, 2016, 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, and have issued our report thereon dated November 9, 2016. Our report includes a reference to another auditor who audited the financial statements of the aggregate discretely presented component units, as described in our report on SDHC's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by that auditor. The financial statements of the aggregate discretely presented component units were not audited in accordance with *Government Auditing Standards*.

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 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 SDHC'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 "CohnReznick LLP". The signature is written in a cursive, flowing style.

Sacramento, California  
November 9, 2016

Independent Auditor's Report on Compliance for Each Major Program and on  
Internal Control over Compliance Required by the Uniform Guidance and Schedule of  
Expenditures of Federal Awards

To the Board of Commissioners  
San Diego Housing Commission

Report on Compliance for Each Major Federal Program

We have audited the San Diego Housing Commission's ("SDHC"), a component unit of the City of San Diego, California, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of SDHC's major federal programs for the year ended June 30, 2016. SDHC's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

*Management's Responsibility*

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

*Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for each of SDHC's major federal programs based on our audit of the types of 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 audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about SDHC'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 each major federal program. However, our audit does not provide a legal determination of SDHC's compliance.



## *Opinion on Each Major Federal Program*

In our opinion, SDHC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

## *Report on Internal Control over Compliance*

Management of SDHC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered SDHC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 SDHC's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal 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 type of compliance requirement of a federal 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 combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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 our testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

## *Schedule of Expenditures of Federal Awards*

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of SDHC, a component unit of the City of San Diego, California, and its discretely presented component units, which comprise the statement of net position as of June 30, 2016, 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, and have issued our report thereon dated November 9, 2016. Our audit was performed for the purpose of forming an opinion on the financial statements of SDHC as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analyses as required by

the Uniform Guidance 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. The 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 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

This report on the Schedule of Expenditures of Federal Awards is intended solely for the information and use of the Audit Committee, Board of Commissioners and management of SDHC, and federal awarding agencies and pass-through entities, and is not suitable for any other purpose.

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

Sacramento, California  
November 9, 2016

**San Diego Housing Commission**

**Schedule of Expenditures of Federal Awards  
Year ended June 30, 2016**

<u>Federal Grantor / Passthrough Grantor Program Title:</u>	<u>Federal CFDA Number</u>	<u>Direct Programs</u>	<u>Passed Through Programs</u>	<u>Federal Expenditures Amount</u>
<b>U.S. Department of Housing and Urban Development</b>				
<b><u>CDBG Cluster</u></b>				
CDBG (City)-Passed through the City of San Diego Contract: BC-15-MC-06-0542	14.218	\$ -	\$ 1,767,494	\$ 1,767,494
CDBG (County)-Passed through the County of San Diego Contract: 552541	14.218	-	50,000	50,000
<b>Subtotal CDBG Cluster</b>	<b>14.218</b>	<b>-</b>	<b>1,817,494</b>	<b>1,817,494</b>
<b><u>Emergency Shelter Grant</u></b>				
Passed through the City of San Diego Contract: E-15-MC-06-0542	14.231	-	956,595	956,595
<b><u>Continuum of Care</u></b>				
Special Needs Assistance				
CA0545L9D011407	14.267	312,750	-	312,750
CA0803L9D011406	14.267	351,505	-	351,505
CA0534L9D011407	14.267	1,846,655	-	1,846,655
CA1257L9D011300	14.267	124,371	-	124,371
CA1208L9D011200	14.267	180,905	-	180,905
CA0533L9D011401	14.267	122,282	-	122,282
CA0863L9D011401	14.267	333,065	-	333,065
<b>Subtotal - Continuum of Care</b>	<b>14.267<sup>1</sup></b>	<b>3,271,533</b>	<b>-</b>	<b>3,271,533</b>
<b><u>HOME Program</u></b>				
HOME Program: M-15-MC-06-0533	14.239	-	49,359	49,359
HOME Program: M-14-MC-06-0533	14.239	-	297,592	297,592
HOME Program: M-13-MC-06-0533	14.239	-	64,965	64,965
HOME Program: M-12-MC-06-0533	14.239	-	3,434,657	3,434,657
HOME Program: M-11-MC-06-0533	14.239	-	396,200	396,200
<b>Subtotal - HOME Program</b>	<b>14.239<sup>1</sup></b>		<b>4,242,773</b>	<b>4,242,773</b>
<b><u>Section 8 Project-Based Cluster</u></b>				
Section 8 Moderate Rehabilitation				
Project 1 MR1: CA063MR0001	14.856	81,172	-	81,172
Project 2 MR2: CA063MR0002	14.856	58,657	-	58,657
Project 7 MR7: CA063MR0007	14.856	323,980	-	323,980
<b>Subtotal - Section 8 Project-Based Cluster</b>	<b>14.856</b>	<b>463,809</b>	<b>-</b>	<b>463,809</b>

**San Diego Housing Commission**

**Schedule of Expenditures of Federal Awards  
Year ended June 30, 2016**

<u>Federal Grantor / Passthrough Grantor Program Title:</u>	<u>Federal CFDA Number</u>	<u>Direct Programs</u>	<u>Passed Through Programs</u>	<u>Federal Expenditures Amount</u>
<b><u>Resident Opportunity &amp; Self Sufficiency</u></b>				
CA063RPS094A015	14.870	7,202	-	7,202
<b>Subtotal - Resident Opportunity &amp; Self Sufficiency</b>	<b>14.870</b>	<b>7,202</b>	<b>-</b>	<b>7,202</b>
<b><u>Moving to Work</u></b>				
Housing Assistance Payments Program:				
For Low Income Families - Voucher	14.871	151,927,286	-	151,927,286
VASH program - CA063VA0001	14.871	7,739,937	-	7,739,937
HCV FSS Coord - CA063FSH662A015	14.871	413,698	-	413,698
<b>Subtotal - Housing Assistance Payments</b>		<b>160,080,921</b>	<b>-</b>	<b>160,080,921</b>
Capital Fund				
Capital Fund Program: CA16-R063-501-09	14.872	160,145	-	160,145
Capital Fund Program: CA16-R063-501-11	14.872	1,214,758	-	1,214,758
Capital Fund Program: CA16-R063-501-12	14.872	923,182	-	923,182
Capital Fund Program: CA16-R063-501-13	14.872	582,937	-	582,937
Capital Fund Program: CA16-R063-501-14	14.872	186,806	-	186,806
Capital Fund Program: CA16-R063-501-15	14.872	35,102	-	35,102
<b>Subtotal - Capital Fund</b>		<b>3,102,930</b>	<b>-</b>	<b>3,102,930</b>
Operating Fund				
AMP 7 CA063-00000715D	14.850A	25,435	-	25,435
AMP 7 CA063-00000716D	14.850A	31,083	-	31,083
AMP 8 CA063-00000815D	14.850A	45,139	-	45,139
AMP 8 CA063-00000816D	14.850A	51,663	-	51,663
AMP 9 CA063-00000915D	14.850A	41,452	-	41,452
AMP 9 CA063-00000916D	14.850A	53,518	-	53,518
<b>Subtotal - Operating Fund</b>		<b>248,290</b>	<b>-</b>	<b>248,290</b>
<b>Subtotal - Moving to Work</b>	<b>14.881 <sup>1</sup></b>	<b>163,432,141</b>	<b>-</b>	<b>163,432,141</b>
<b><u>LEAD</u></b>				
Lead Paint CALHBO53212	14.900	242,246	-	242,246
<b>Subtotal - LEAD</b>	<b>14.900</b>	<b>242,246</b>	<b>-</b>	<b>242,246</b>
<b><u>Family Unification Program (FUP)</u></b>				
Family Unification Program				
Contract: CA063FU0001	14.880	1,160,663	-	1,160,663

See notes to Schedule of Expenditures of Federal Awards.

**San Diego Housing Commission**

**Schedule of Expenditures of Federal Awards  
Year ended June 30, 2016**

<u>Federal Grantor / Passthrough Grantor Program Title:</u>	<u>Federal CFDA Number</u>	<u>Direct Programs</u>	<u>Passed Through Programs</u>	<u>Federal Expenditures Amount</u>
<b>U.S. Department of Health and Human Services</b>				
<b><u>Assets for Independence Program</u></b>				
Assets for Independence Program Contract: 90E10704	93.602	<u>32,125</u>	<u>-</u>	<u>32,125</u>
<b><u>Corporation for National and Community Service</u></b>				
<b><u>Social Innovation Fund</u></b>				
Passed through Local Initiatives Support Corp Contract: 45209-0003	94.019	<u>-</u>	<u>34,571</u>	<u>34,571</u>
<b>TOTAL</b>		<u><u>\$ 168,609,719</u></u>	<u><u>\$ 7,051,433</u></u>	<u><u>\$ 175,661,152</u></u>

1 - audited as major programs

See notes to Schedule of Expenditures of Federal Awards.

## **San Diego Housing Commission**

### **Notes to Schedule of Expenditures of Federal Awards Year ended June 30, 2016**

#### **Note 1 - Reporting Entity**

San Diego Housing Commission ("SDHC") is a government agency formed by the City of San Diego (the "City") under Ordinance No. 2515 on December 5, 1978 in accordance with the Housing Authority Law of the State of California. SDHC is an integral part (component unit) of the reporting entity of the City. SDHC primarily serves low income families by providing housing assistance payments, rental housing, loans and grants to individuals and not-for-profit organizations and other services.

#### **Note 2 - Summary of Significant Accounting Policies**

##### **Basis of Accounting**

The expenditures included in the Schedule of Expenditures of Federal Awards (the "Schedule") were reported under the accrual basis of accounting.

##### **Schedule of Expenditures of Federal Awards**

The Schedule summarizes the expenditures of SDHC under the programs of the federal government for the year ended June 30, 2016. Award amounts may represent multi-year awards while the expenditures represent current year expenditures only.

The Schedule presents only the expenditures incurred by SDHC that are reimbursable under federal programs of federal agencies providing financial assistance. For the purpose of the Schedule, financial assistance includes both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by SDHC from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the Schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the Schedule.

The Schedule was prepared from only the accounts of the grant programs and, therefore does not represent the financial position or results of operations of SDHC.

## San Diego Housing Commission

### Notes to Schedule of Expenditures of Federal Awards Year ended June 30, 2016

#### Note 3 - Blended Component Units Federal Expenditures

SDHC has three blended component units Southern SDHC FHA LLC, Northern SDHC FHA LLC and Central SDHC FHA LLC whose federal expenditures are excluded from the Schedule because their federal expenditures have been separately audited and reported to HUD. The federal expenditures for the programs of Southern SDHC FHA LLC, Northern SDHC FHA LLC and Central SDHC FHA LLC for the year ended June 30, 2016 are as follows:

<u>Federal Grantor / Passthrough Grantor Program Title:</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>Federal Expenditures Amount</u>
<u>Direct Programs</u>			
<b>U.S. Department of Housing and Urban Development</b>			
<b><u>Federal Housing Administration - Insured loans under Section 223(f)</u></b>			
FHA Insured Loan - Southern SDHC FHA LLC		FHA # 12911055	\$ 22,801,808
FHA Insured Loan - Northern SDHC FHA LLC		FHA # 12911053	15,950,539
FHA Insured Loan - Central SDHC FHA LLC		FHA # 12911054	<u>14,328,253</u>
<b>TOTAL</b>			<u><u>\$ 53,080,600</u></u>

**San Diego Housing Commission**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2016**

**A. Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued on the financial statements: Unmodified

Internal control over financial reporting:

\*Material weakness(es) identified? \_\_\_\_\_ Yes x No

\*Significant deficiency(ies) identified? \_\_\_\_\_ Yes x None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes x No

*Federal Awards*

Internal control over major programs:

\*Material weakness(es) identified? \_\_\_\_\_ Yes x No

\*Significant deficiency(ies) identified? \_\_\_\_\_ Yes x None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? \_\_\_\_\_ Yes x No

Identification of major programs:

<u>CFDA Numbers(s)</u>	<u>Name of Federal Program or Cluster</u>
14.881	Moving to Work
14.239	HOME
14.267	Continuum of Care

Dollar threshold used to distinguish between Type A and Type B programs: \$3,000,000

Auditee qualified as low-risk auditee x Yes \_\_\_\_\_ No



**San Diego Housing Commission**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2016**

**B. Findings - Financial Statements Audit**

None

**C. Findings and Questioned Costs - Major Federal Award Programs Audit**

None

**San Diego Housing Commission**

**Status of Prior Audit Findings  
June 30, 2016**

The previous audit report for the year ended June 30, 2015 contained no audit finding.

## **ATTACHMENT 3**

**San Diego Housing Commission**

**Report to the Audit Committee  
of the Board of Commissioners**

**June 30, 2016**

November 9, 2016

To the Audit Committee of the Board of Commissioners  
San Diego Housing Commission

We have audited the financial statements of the San Diego Housing Commission ("SDHC"), a component unit of the City of San Diego, California, and its discretely presented component units as of and for the year ended June 30, 2016, and have issued our report thereon dated November 9, 2016.

Professional standards require that we provide you with the following information related to our audit. This letter serves to fulfill this professional requirement.

Specific areas to be communicated to you are as follows:

- Our responsibility under U.S. Generally Accepted Auditing Standards, *Government Auditing Standards* and OMB Uniform Guidance
- Planned Scope and Timing of the Audit
- Significant Audit Findings
- Other Matters

Our comments regarding these specific areas above as they relate to the audit of SDHC as of and for the year ended June 30, 2016 are presented in the Attachment to this letter. We will be pleased to review these items at your request.

Very truly yours,

CohnReznick LLP



Ahamadou Alainchar Bocar,  
Partner

## Our Responsibility under U.S. Generally Accepted Auditing Standards, *Government Auditing Standards* and OMB Uniform Guidance

As stated in our engagement letter dated May 9, 2016, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered San Diego Housing Commission ("SDHC")'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Uniform Guidance.

As part of obtaining reasonable assurance about whether SDHC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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. Also in accordance with OMB Uniform Guidance, we examined, on a test basis, evidence about San Diego Housing Commission's compliance with the types of compliance requirements described in the "Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)" applicable to each of its major federal programs for the purpose of expressing an opinion on San Diego Housing Commission's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on San Diego Housing Commission's compliance with those requirements.

### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to the Audit Committee and management of SDHC.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by SDHC are described in Note 2 to the financial statements. The new accounting pronouncements adopted by SDHC during the year ended June 30, 2016 are disclosed in Note 2 to the financial

statements. Their adoption did not have a significant impact on SDHC's financial statements.

The application of existing policies was not changed during the year ended June 30, 2016. We noted no transactions entered into by SDHC during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most significant estimates reflected in the financial statements include:

- The collectability of notes, mortgages and accounts receivable and the allowances for losses on notes, mortgages and accounts receivable
- Depreciation estimates for capital assets including depreciation methods and useful lives assigned to the depreciable assets
- Accrued compensated absences

Management's estimates and judgments were based on the following:

- Estimated allowances for losses on notes, mortgages and accounts receivable were based upon historical collection experience for loans and accounts receivable and management's assessment of the likelihood of collectability on the notes and mortgages receivable.
- Useful lives and method of depreciation for capital assets were determined by management based upon the nature of the capital assets and their expected economic lives.
- Accrual and disclosures of compensated absences were based on accrued eligible hours of vacation and sick leave at current pay rates for eligible employees.

For all significant estimates made by management, we evaluated the key factors and assumptions used to determine that the estimates are reasonable in relation to the financial statements as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statements users. The most sensitive disclosures affecting the financial statements are included in notes 1 through 20 to the financial statements. The disclosures in these notes are neutral, consistent and clear.

### Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no misstatements detected as a result of audit procedures. There were no uncorrected misstatements.

### Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 9, 2016.

### Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to SDHC's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as SDHC's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

We applied certain limited procedures to the Management Discussion & Analysis which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining schedules of net position, revenues, expenses and changes in net position and cash flows, and the Financial Data Schedule, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory and statistical sections, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

#### Restriction on Use

This information is intended solely for the use of the Audit Committee, Board of Commissioners, and management of SDHC and is not intended to be and should not be used by anyone other than these specified parties.



## **ATTACHMENT 4**

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

**Special Purpose Financial Statement  
(With Supplementary Information)  
and Independent Auditor's Report**

**June 30, 2016**

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

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Independent Auditor's Report

To the Board of Commissioners  
of the San Diego Housing Commission

RE: Otay Villas Housing Development Project No. 12-HLCP-0003

Report on the Statement of Project Operations

We have audited the accompanying statement of project operations (the "Statement") of the San Diego Housing Commission's Otay Villas Housing Development Project No. 12-HLCP-0003 (the "Project") for the year ended June 30, 2016, and the related notes to the statement.

*Management's Responsibility for the Statement*

Management is responsible for the preparation and fair presentation of the Statement 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 the Statement that is free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the statement 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 Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statement, 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 Statement 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 Statement.

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 statement of project operations referred to above presents fairly, in all material respects, the operations of the Project for the year ended June 30, 2016 in accordance with accounting principles generally accepted in the United States of America.

### *Emphasis of Matter*

As described in Note 1, the accompanying statement was prepared to present the rental revenue and operating expenses of the Project in accordance with the regulatory agreement between San Diego Housing Commission and the California Department of Housing and Community Development ("RHCP"), and is not intended to be a complete presentation of the Project revenues and expenses. Our opinion is not modified with respect to this matter.

### *Report on Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the statement of project operations as a whole. The accompanying supplementary information required by RHCP on pages 8 and 9 is presented for purposes of additional analysis and is not a required part of the statement of project operations. Such information is the responsibility of management and was derived from and relates directly to underlying accounting and other records used to prepare the statement of project operations. The information, except for the portion marked "unaudited," has been subjected to the auditing procedures applied in the audit of the statement of project operations and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statement of project operations or to the statement of project operations itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information, except for the portion marked "unaudited" on which we express no opinion, is fairly stated in all material respects in relation to the statement of project operations as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2016, on our consideration of the Project'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 financing reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Project's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CohnReznick LLP".

Sacramento, California  
November 9, 2016

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

**Statement of Project Operations  
Year Ended June 30, 2016**

Revenue	
Total gross potential rents	\$ 392,084
Total rental income	392,084
Other income	
HUD public housing operating subsidy	94,970
Laundry income	9,551
Interest income - project operations	3,866
Tenant charges and other income	3,850
Total revenue	504,321
Operating expenses	
Management fee	56,233
Administrative expenses	82,276
Utility expenses	102,658
Operating and maintenance expenses	141,494
Insurance and employee benefits	32,468
Total operating expenses	415,129
Income from operations	\$ 89,192

See Notes to Statement of Project Operations.

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

**Notes to Statement of Project Operations  
June 30, 2016**

**Note 1 - Basis of presentation and summary of significant accounting policies**

**The project**

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 and bears interest at 3% per annum. Effective the end of the first operating year of the project following the refinancing, the new loan is payable to RHCP in the annual amount of 0.42% of the outstanding principal balance (\$13,230 per year).

**Basis of presentation**

The basis of presentation is in conformity with generally accepted accounting principles in the United States of America; however the presentation of the statement of project operations is not intended to be a complete presentation of the project's assets, liabilities, revenue and expenses in accordance with generally accepted accounting principles in the United States of America. The presentation of the statement of project operations only includes the rental income and operating expenses associated with the rental activities of the Project. The statement of project operations does not reflect depreciation expense, interest income earned on restricted reserves, and the interest expense on the RHCP loan.

**Use of estimates**

The preparation of the statement of project operations, in conformity with the agreements with RHCP requires management to make estimates and assumptions that affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

**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, 2016, the Project received \$94,970 of operating subsidy income. Due to the receipt of the HUD operating subsidy, the Project no longer receives annuity income from RHCP.

**Note 2 - Management fee**

The Project incurs a management fee to 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.

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

**Notes to Statement of Project Operations  
June 30, 2016**

**Note 3 - Subsequent events**

Management evaluated the activity of the Project through November 9, 2016, the date the financial statements were available to be issued, and concluded that no subsequent events have occurred that would require recognition in the statement of project operations or disclosure in the notes to statement of project operations.

**Supplementary Information Required by the California  
Department of Housing and Community Development**



# Rental Housing Construction Program (RHCP) - Original ACTUAL CASH FLOW ANALYSIS

Reporting Period: 07/01/2015 to 06/30/2016

Contract No: 80-RHC-026  
Project Name: Otay Villas  
Prepared by: Christy A Huerto  
Date Prepared: 6/30/2016

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

ACCOUNT NAME		ASSISTED UNITS		NON-ASSISTED UNITS		COMMERCIAL		TOTAL PROJECT		PROJECT VARIANCE
	Account Codes	Approved Cashflow "Unaudited " (A)	Actual Cashflow (B)	Approved Cashflow (C)	Actual Cashflow (D)	Proposed Cashflow (E)	Actual Cashflow (F)	Approved Cashflow "Unaudited " (G)	Actual Cashflow (H)	Cashflow Variance (I)
<b>REVENUE ACCOUNTS/RENT REVENUE: 5100</b>										
1 Rent Revenue	5120	\$ 372,173	\$ 392,084	\$ -	\$ -	\$ -	\$ -	\$ 372,173	\$ 392,084	\$ 19,911
2 Tenant Assistance Payments	5121	-	94,970	-	-	-	-	-	94,970	94,970
3 Rent revenue - Stores and Commercial	5140	-	-	-	-	-	-	-	-	-
4 Garage and Parking Spaces	5170	-	-	-	-	-	-	-	-	-
5 Flexible Subsidy Revenue	5185	-	-	-	-	-	-	-	-	-
6 Miscellaneous Rent Revenue	5190	-	-	-	-	-	-	-	-	-
7 Excess Rent	5191	-	-	-	-	-	-	-	-	-
8 Rent Revenue/Insurance	5192	-	-	-	-	-	-	-	-	-
9 Special Claims Revenue	5193	-	-	-	-	-	-	-	-	-
10 Retained Excess Income	5194	-	-	-	-	-	-	-	-	-
<b>11 GROSS RENT REVENUE</b>	<b>5100T</b>	<b>372,173</b>	<b>487,054</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>372,173</b>	<b>487,054</b>	<b>114,881</b>
<b>VACANCIES: 5200</b>	<b>5200T</b>	<b>11,165</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,165</b>	<b>-</b>	<b>-</b>
<b>Vacancy Percentage:</b>										
11 Apartments -	5220	-	-	-	-	-	-	-	-	-
12 Stores and Commercial	5240	-	-	-	-	-	-	-	-	-
13 Rental Concessions	5250	-	-	-	-	-	-	-	-	-
14 Garage and Parking Spaces	5270	-	-	-	-	-	-	-	-	-
15 Miscellaneous	5290	-	-	-	-	-	-	-	-	-
<b>Total Vacancies (HCD Use Only)</b>	<b>5200T</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>ASSISTED LIVING/BOARD &amp; CARE REVENUES: 5300</b>										
17 Food	5332	-	-	-	-	-	-	-	-	-
18 Recreation (Activities) and Rehabilitation	5380	-	-	-	-	-	-	-	-	-
19 Rehabilitation	5385	-	-	-	-	-	-	-	-	-
20 Other Service Revenue	5390	-	-	-	-	-	-	-	-	-
<b>Total Living Revenue</b>	<b>6300T</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FINANCIAL REVENUE: 5400</b>										
21 Financial Revenue - Project Operations	5410	2,481	3,866	-	-	-	-	2,481	3,866	1,385
<b>Total Financial Revenue</b>	<b>5400T</b>	<b>2,481</b>	<b>3,866</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,481</b>	<b>3,866</b>	<b>1,385</b>
<b>OTHER REVENUE: 5900</b>										
22 Laundry and Vending Revenue	5910	9,666	9,551	-	-	-	-	9,666	9,551	(115)
23 NSF and Late Charges	5920	3,325	3,850	-	-	-	-	3,325	3,850	525
24 Damages and Cleaning Fees	5930	-	-	-	-	-	-	-	-	-
25 Forfeited Tenant Security Deposits	5940	-	-	-	-	-	-	-	-	-
26 Other Revenue	5990	-	-	-	-	-	-	-	-	-
<b>Total Other Revenue</b>	<b>5900T</b>	<b>12,991</b>	<b>13,401</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,991</b>	<b>13,401</b>	<b>410</b>
<b>27 EFFECTIVE GROSS RENT (EGR)</b>	<b>5152T</b>	<b>376,480</b>	<b>504,321</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>387,645</b>	<b>504,321</b>	<b>127,841</b>
<b>28 TOTAL OPERATING EXPENSES</b>	<b>6000T</b>	<b>415,129</b>	<b>415,129</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>415,129</b>	<b>415,129</b>	<b>-</b>
<b>29 NET OPERATING INCOME (NOI)</b>	<b>5000T</b>	<b>(38,649)</b>	<b>89,192</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(38,649)</b>	<b>89,192</b>	<b>127,841</b>
<b>FINANCIAL EXPENSES: 6800</b>										
30 Non-Contingent Debt Service (specify lender)	6895	-	-	-	-	-	-	-	-	-
1st Mortgage =		-	-	-	-	-	-	-	-	-
2nd Mortgage =		-	-	-	-	-	-	-	-	-
3rd Mortgage =		-	-	-	-	-	-	-	-	-
31 HCD Required Payments	6890	13,230	13,230	-	-	-	-	13,230	13,230	13,230
32 Lease Payment	6890	-	-	-	-	-	-	-	-	-
33 Miscellaneous Financial Expenses	6890	-	-	-	-	-	-	-	-	-
<b>Total Financial Expenses</b>	<b>6800T</b>	<b>13,230</b>	<b>13,230</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,230</b>	<b>-</b>	<b>13,230</b>
<b>FUNDED RESERVES:</b>										
34 Escrow Deposits	1310	-	-	-	-	-	-	-	-	-
35 Replacement Reserve-Deposit	1320	46,800	46,800	-	-	-	-	46,800	46,800	-
36 Operating Reserve-Deposit	1300	-	-	-	-	-	-	-	-	-
37 Other Reserves (specify)										
#1	1330	-	-	-	-	-	-	-	-	-
#2	1330	-	-	-	-	-	-	-	-	-
#3	1330	-	-	-	-	-	-	-	-	-
<b>Total Reserve Deposits</b>		<b>46,800</b>	<b>46,800</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>46,800</b>	<b>46,800</b>	<b>-</b>
<b>38 PROJECT CASH FLOW (CF)</b>		<b>(98,679)</b>	<b>29,162</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(98,679)</b>	<b>42,392</b>	<b>141,071</b>
<b>ADDITIONAL REVENUE:</b>										
39 RHCP-O Annuity Fund Request (For Assisted Units Only)		-	-	-	-	-	-	-	-	-
40 Withdrawal from Operating Reserves		1,247	-	-	-	-	-	1,247	-	(1,247)
41 Borrower Contribution		-	-	-	-	-	-	-	-	-
42 Other (specify)		97,432	-	-	-	-	-	97,432	-	(97,432)
<b>Total Additional Revenue</b>		<b>98,679</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>98,679</b>	<b>-</b>	<b>(98,679)</b>
<b>USE OF CASH FLOW:</b>										
43 HCD Interest Payments		-	-	-	-	-	-	-	-	-
44 Asset Mgmt Fee (CHRP-R/SUHRP & HOME-pre-UMR Only)		-	-	-	-	-	-	-	-	-
45 Asset Mgmt Fee/Prtshp Costs (MHP/HOME under UMR)		-	-	-	-	-	-	-	-	-
46 Borrower Distributions		-	-	-	-	-	-	-	-	-
47 Residual Receipt Loan Payments		-	-	-	-	-	-	-	-	-
48 Other (specify)		-	-	-	-	-	-	-	-	-
<b>Total Use of Cash Flow</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Rental Housing Construction Program (RHCP) - Original**  
**REPORT OF ACTUAL OPERATING COSTS**

Reporting Period: 07/01/2015 to 06/30/2016

Contract No: 80-RHC-026  
 Project Name: Otay Villas  
 Prepared by: Christy A Huerto  
 Date Prepared: 6/30/2016

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

ACCOUNT NAME		UNIT EXPENSES						PROJECT TOTALS		
	ACCOUNT CODES	Approved Assisted "Unaudited" (A)	Actual Assisted	Approved Non-Assisted	Actual Non-Assisted	Proposed Commercial	Actual Commercial	Approved Total Expenses "Unaudited"	Total Actual Expenses (B)	Project Variance (C)
<b>MANAGEMENT FEE: 6200/6300</b>										
1 Management Fee	6320	\$ 56,233	\$ 56,233	\$ -	\$ -	\$ -	\$ -	\$ 56,233	\$ 56,233	\$ -
<b>ADMINISTRATIVE EXPENSES: 6200/6300</b>										
2 Advertising	6210	1,591	-	-	-	-	-	1,591	-	1,591
3 Apartment Resale Expense (Cooperatives)	6235	-	-	-	-	-	-	-	-	-
4 Other Renting Expenses	6250	212	1,838	-	-	-	-	212	1,838	(1,626)
5 Office Salaries	6310	47,337	263	-	-	-	-	47,337	263	47,074
6 Office Supplies	6311	4,774	6,001	-	-	-	-	4,774	6,001	(1,227)
7 Office or Model Apartment Rent	6312	-	-	-	-	-	-	-	-	-
8 Manager and Superintendent Salaries	6330	23,015	27,623	-	-	-	-	23,015	27,623	(4,608)
9 Manager's or Superintendent's Rent Free Unit	6331	10,274	15,228	-	-	-	-	10,274	15,228	(4,954)
10 Legal Expense - Project	6340	796	525	-	-	-	-	796	525	271
11 Audit Expense - Project	6350	1,404	2,500	-	-	-	-	1,404	2,500	(1,096)
12 Bookkeeping Fees/Accounting Services	6351	10,608	19,819	-	-	-	-	10,608	19,819	(9,211)
13 Telephone and Answering Service Expenses	6360	955	3,567	-	-	-	-	955	3,567	(2,612)
14 Bad Debt Expense	6370	-	-	-	-	-	-	-	-	-
15 Miscellaneous Administrative Expenses (specify)	6390	6,789	4,912	-	-	-	-	6,789	4,912	1,877
16 <b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>6200/6300T</b>	<b>107,755</b>	<b>82,276</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>107,755</b>	<b>82,276</b>	<b>25,479</b>
<b>UTILITIES EXPENSES: 6400</b>										
17 Fuel Oil/Coal	6420	-	-	-	-	-	-	-	-	-
18 Electricity	6450	14,014	14,668	-	-	-	-	14,014	14,668	(654)
19 Water	6451	33,867	35,580	-	-	-	-	33,867	35,580	(1,713)
20 Gas	6452	14,651	12,867	-	-	-	-	14,651	12,867	1,784
21 Sewer	6453	30,074	39,543	-	-	-	-	30,074	39,543	(9,469)
22 <b>TOTAL UTILITIES EXPENSES</b>	<b>6400T</b>	<b>92,606</b>	<b>102,658</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>92,606</b>	<b>102,658</b>	<b>(10,052)</b>
<b>OPERATING AND MAINTENANCE EXPENSES: 6500</b>										
23 Janitor and Cleaning Payroll	6510	-	-	-	-	-	-	-	-	-
24 Janitor and Cleaning Supplies	6515	-	-	-	-	-	-	-	-	-
25 Janitor and Cleaning Contracts	6517	10,535	5,363	-	-	-	-	10,535	5,363	5,172
26 Exterminating Payroll/Contract	6519	5,383	4,349	-	-	-	-	5,383	4,349	1,034
27 Exterminating Supplies	6520	-	-	-	-	-	-	-	-	-
28 Garbage and Trash Removal	6525	11,317	12,456	-	-	-	-	11,317	12,456	(1,139)
29 Security Payroll/Contract	6530	19,333	22,140	-	-	-	-	19,333	22,140	(2,807)
30 Grounds Payroll	6535	-	-	-	-	-	-	-	-	-
31 Grounds Supplies	6536	-	-	-	-	-	-	-	-	-
32 Grounds Contract	6537	12,706	23,787	-	-	-	-	12,706	23,787	(11,081)
33 Repairs Payroll	6540	18,554	29,803	-	-	-	-	18,554	29,803	(11,249)
34 Repairs Material	6541	12,691	12,893	-	-	-	-	12,691	12,893	(202)
35 Repairs Contract	6542	27,848	23,759	-	-	-	-	27,848	23,759	4,089
36 Elevator Maintenance/Contract	6545	-	-	-	-	-	-	-	-	-
37 Heating/Cooling Repairs and Maintenance	6546	-	-	-	-	-	-	-	-	-
38 Swimming Pool Maintenance/Contract	6547	-	-	-	-	-	-	-	-	-
39 Snow Removal	6548	-	-	-	-	-	-	-	-	-
40 Decorating/Payroll Contract	6560	8,798	6,857	-	-	-	-	8,798	6,857	1,941
41 Decorating Supplies	6561	-	-	-	-	-	-	-	-	-
42 Vehicle and Maint. Equipment Operation/Repairs	6570	950	87	-	-	-	-	950	87	863
43 Misc. Operating and Maintenance Expenses (specify)	6590	-	-	-	-	-	-	-	-	-
44 <b>TOTAL OPERATING &amp; MAINTENANCE EXPENSES</b>	<b>6500T</b>	<b>128,115</b>	<b>141,494</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>128,115</b>	<b>141,494</b>	<b>(13,379)</b>
<b>TAXES AND INSURANCE: 6700</b>										
45 Real Estate Taxes	6710	-	-	-	-	-	-	-	-	-
46 Payroll Taxes (Project's Share)	6711	-	-	-	-	-	-	-	-	-
47 Misc. Taxes, Licenses and Permits	6719	-	-	-	-	-	-	-	-	-
48 Property and Liability Insurance (Hazard)	6720	4,891	11,622	-	-	-	-	4,891	11,622	(6,731)
49 Fidelity Bond Insurance	6721	-	-	-	-	-	-	-	-	-
50 Worker's Compensation	6722	-	-	-	-	-	-	-	-	-
51 Health Insurance and Other Employee Benefits	6723	13,438	20,846	-	-	-	-	13,438	20,846	(7,408)
52 Other Insurance	6729	-	-	-	-	-	-	-	-	-
53 <b>TOTAL TAXES AND INSURANCE</b>	<b>6700T</b>	<b>18,329</b>	<b>32,468</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18,329</b>	<b>32,468</b>	<b>(14,139)</b>
<b>ASSISTED LIVING/BOARD &amp; CARE EXPENSES: 6900</b>										
54 Food	6932	-	-	-	-	-	-	-	-	-
55 Recreation and Rehabilitation	6980	-	-	-	-	-	-	-	-	-
56 Rehabilitation Salaries	6983	-	-	-	-	-	-	-	-	-
57 Other Service Expenses	6990	-	-	-	-	-	-	-	-	-
58 <b>TOTAL ASSISTED LIVING EXPENSES</b>	<b>6900T</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
60 <b>CONTINGENCY RESERVE</b>		<b>12,091</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,091</b>	<b>-</b>	<b>12,091</b>
61 <b>TOTAL OPERATING COSTS</b>		<b>\$ 415,129</b>	<b>\$ 415,129</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 415,129</b>	<b>\$ 415,129</b>	<b>\$ -</b>

Independent Auditor's Report on Internal Control over Financial Reporting and  
on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards*

To the Board of Commissioners  
San Diego Housing Commission

We have audited, in accordance with 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 statement of project operations of San Diego Housing Commission's Otay Villas Housing Development Project No. 12-HLCP-0003 (the "Project") for the year ended June 30, 2016, and have issued our report thereon dated November 9, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the statement of project operations, we considered the Project'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 statement, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control. Accordingly, we do not express an opinion on the effectiveness of the Project's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the statement of project operations 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 statement of project operations 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 material effect on the determination of statement of project operations 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*.

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 Project'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 Project's internal control and compliance. Accordingly, this report 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  
November 9, 2016

## **ATTACHMENT 5**

**San Diego Housing Commission  
Scattered Sites Housing  
Development Project No. 12-HLCP-0004**

**Special Purpose Financial Statement  
(With Supplementary Information)  
and Independent Auditor's Report**

**June 30, 2016**

**San Diego Housing Commission  
Scattered Sites Housing Development Project No. 12-HLCP-0004**

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Independent Auditor's Report

To the Board of Commissioners  
San Diego Housing Commission

RE: Scattered Sites Housing Development Project  
No. 12-HLCP-0004

Report on the Statement of Project Operations

We have audited the accompanying statement of project operations (the "Statement") of the San Diego Housing Commission's Scattered Sites Housing Development Project No. 12-HLCP-0004 ("the Project") for the year ended June 30, 2016, and the related notes to the statement.

*Management's Responsibility for the Statement*

Management is responsible for the preparation and fair presentation of the Statement 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 the Statement that is free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the statement 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 Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statement, 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 Statement 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 Statement.

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 statement of project operations referred to above presents fairly, in all material respects, the operations of the Project for the year ended June 30, 2016 in accordance with accounting principles generally accepted in the United States of America.

### *Emphasis of Matter*

As described in Note 1, the accompanying statement was prepared to present the rental revenue and operating expenses of the Project in accordance with the regulatory agreement between San Diego Housing Commission and the California Department of Housing and Community Development ("RHCP"), and is not intended to be a complete presentation of the Project revenues and expenses. Our opinion is not modified with respect to this matter.

### *Report on Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the statement of project operations as a whole. The accompanying supplementary information required by the RHCP on pages 8 and 9 is presented for purposes of additional analysis and is not a required part of the statement of project operations. Such information is the responsibility of management and was derived from and relates directly to underlying accounting and other records used to prepare the statement of project operations. The information, except for the portion marked "unaudited," has been subjected to the auditing procedures applied in the audit of the statement of project operations and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statement of project operations or to the statement of project operations itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information, except for the portion marked "unaudited" on which we express no opinion, is fairly stated in all material respects in relation to the statement of project operations as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2016, on our consideration of the Project'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 financing reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Project's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CohnReznick LLP".

Sacramento, California  
November 9, 2016



**San Diego Housing Commission  
Scattered Sites Housing Development Project No. 12-HLCP-0004**

**Statement of Project Operations  
Year Ended June 30, 2016**

Revenue	
Total gross potential rents	<u>\$ 91,655</u>
Total rental income	91,655
Other income (expense)	
Annuity grant income	29,222
Interest income project operations	2,360
Laundry income	786
Tenant charges and other income	<u>955</u>
Total revenue	<u>124,978</u>
Operating expenses	
Management fee	28,648
Administrative expenses	28,951
Utility expenses	14,614
Operating and maintenance expenses	27,433
Insurance and employee benefits	<u>7,178</u>
Total operating expenses	<u>106,824</u>
Income from operations	<u><u>\$ 18,154</u></u>

See Notes to Statement of Project Operations.

**San Diego Housing Commission  
Scattered Sites Housing Development Project No. 12-HLCP-0004**

**Notes to Statement of Project Operations  
June 30, 2016**

**Note 1 - Basis of presentation and summary of significant accounting policies**

**The Project**

The San Diego Housing Commission ("SDHC")'s Scattered Sites Housing Development Project consists of a 35-unit adaptable 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 and bears interest at 3% per annum. Effective the end of the first operating year of the project following the refinancing, the new loan is payable to RHCP in the annual amount of 0.42% of the outstanding principal balance (\$5,900 per year).

**Basis of presentation**

The basis of presentation is in conformity with generally accepted accounting principles in the United States of America; however the presentation of the statement of project operations is not intended to be a complete presentation of the project's assets, liabilities, revenue and expenses in accordance with generally accepted accounting principles in the United States of America. The presentation of the statement of project operations only includes the rental income and operating expenses associated with the rental activities of the Project. The statement of project operations does not reflect depreciation expense, interest income earned on restricted reserves and interest expense on the RHCP permanent loan. The statement of project operations also includes as income the operating grant to be received from RHCP to cover the operating deficit generated during the year or an expense for the amount to be remitted to RHCP in case the Project generates a surplus.

**Use of estimates**

The preparation of the statement of project operations in conformity with the agreements with RHCP requires management to make estimates and assumptions that affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**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.

**Annuity grant income**

Grant income is recorded as revenue when due from RHCP to fund budget deficits. In the year in which the Project generates positive surplus cash, the Project records an expense for the amount of the surplus cash that will be refunded to RHCP. SDHC submitted the budget of the Project to RHCP and on June 10, 2015, SDHC received a formal approval from RHCP.

**Note 2 - Management fee**

The Project incurs a management fee to 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.

**San Diego Housing Commission  
Scattered Sites Housing Development Project No. 12-HLCP-0004**

**Notes to Statement of Project Operations  
June 30, 2016**

**Note 3 - Subsequent events**

Management evaluated the activity of the Project through November 9, 2016, the date the financial statements were available to be issued, and concluded that no subsequent events have occurred that would require recognition in the statement of project operations or disclosure in the notes to the statement of project operations.

**Supplementary Information Required by the California  
Department of Housing and Community Development**

**Rental Housing Construction Program (RHCP) - Original  
ACTUAL CASH FLOW ANALYSIS**

Reporting Period: 07/01/2015 to 06/30/2016

Contract No: 80-RHC-002  
Project Name: Adaptable Housing  
Prepared by: Christy A Huerto  
Date Prepared: 6/30/2016

Units/Sq. Ft. - Assisted: 26  
Units/Sq. Ft. - Total: 35  
  
Unit Months: 420

ACCOUNT NAME		ASSISTED UNITS		NON-ASSISTED UNITS		COMMERCIAL		TOTAL PROJECT		PROJECT VARIANCE
	Account Codes	Approved Cashflow "Unaudited" (A)	Actual Cashflow (B)	Approved Cashflow (C)	Actual Cashflow (D)	Proposed Cashflow (E)	Actual Cashflow (F)	Approved Cashflow "Unaudited" (G)	Actual Cashflow (H)	Cashflow Variance (I)
<b>REVENUE ACCOUNTS/RENT REVENUE: 5100</b>										
1 Rent Revenue	5120	\$ 119,184	\$ 68,090	\$ -	\$ 23,565	\$ -	\$ -	\$ 119,184	\$ 91,655	\$ (27,529)
2 Tenant Assistance Payments	5121	-	-	-	-	-	-	-	-	-
3 Rent revenue - Stores and Commercial	5140	-	-	-	-	-	-	-	-	-
4 Garage and Parking Spaces	5170	-	-	-	-	-	-	-	-	-
5 Flexible Subsidy Revenue	5185	-	-	-	-	-	-	-	-	-
6 Miscellaneous Rent Revenue	5190	-	-	-	-	-	-	-	-	-
7 Excess Rent	5191	-	-	-	-	-	-	-	-	-
8 Rent Revenue/Insurance	5192	-	-	-	-	-	-	-	-	-
9 Special Claims Revenue	5193	-	-	-	-	-	-	-	-	-
10 Retained Excess Income	5194	-	-	-	-	-	-	-	-	-
<b>11 GROSS RENT REVENUE</b>	<b>5100T</b>	<b>119,184</b>	<b>68,090</b>	<b>-</b>	<b>23,565</b>	<b>-</b>	<b>-</b>	<b>119,184</b>	<b>91,655</b>	<b>(27,529)</b>
<b>VACANCIES: 5200</b>										
<b>Vacancy Percentage:</b>										
11 Apartments -	5220	-	-	-	-	-	-	-	-	-
12 Stores and Commercial	5240	-	-	-	-	-	-	-	-	-
13 Rental Concessions	5250	-	-	-	-	-	-	-	-	-
14 Garage and Parking Spaces	5270	-	-	-	-	-	-	-	-	-
15 Miscellaneous	5290	-	-	-	-	-	-	-	-	-
<b>Total Vacancies (HCD Use Only)</b>	<b>5200T</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>ASSISTED LIVING/BOARD &amp; CARE REVENUES: 5300</b>										
17 Food	5332	-	-	-	-	-	-	-	-	-
18 Recreation (Activities) and Rehabilitation	5380	-	-	-	-	-	-	-	-	-
19 Rehabilitation	5385	-	-	-	-	-	-	-	-	-
20 Other Service Revenue	5390	-	-	-	-	-	-	-	-	-
<b>Total Living Revenue</b>	<b>6300T</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FINANCIAL REVENUE: 5400</b>										
21 Financial Revenue - Project Operations	5410	842	1,754	-	607	-	-	842	2,360	1,518
<b>Total Financial Revenue</b>	<b>5400T</b>	<b>842</b>	<b>1,754</b>	<b>-</b>	<b>607</b>	<b>-</b>	<b>-</b>	<b>842</b>	<b>2,360</b>	<b>1,518</b>
<b>OTHER REVENUE: 5900</b>										
22 Laundry and Vending Revenue	5910	4,124	584	-	202	-	-	4,124	786	(3,338)
23 NSF and Late Charges	5920	1,825	709	-	246	-	-	1,825	955	(870)
24 Damages and Cleaning Fees	5930	-	-	-	-	-	-	-	-	-
25 Forfeited Tenant Security Deposits	5940	-	-	-	-	-	-	-	-	-
26 Other Revenue	5990	-	-	-	-	-	-	-	-	-
<b>Total Other Revenue</b>	<b>5900T</b>	<b>5,949</b>	<b>1,293</b>	<b>-</b>	<b>448</b>	<b>-</b>	<b>-</b>	<b>5,949</b>	<b>1,741</b>	<b>(4,208)</b>
<b>27 EFFECTIVE GROSS RENT (EGR)</b>	<b>5152T</b>	<b>125,975</b>	<b>71,137</b>	<b>-</b>	<b>24,620</b>	<b>-</b>	<b>-</b>	<b>125,975</b>	<b>95,756</b>	<b>(30,220)</b>
<b>28 TOTAL OPERATING EXPENSES</b>	<b>6000T</b>	<b>145,496</b>	<b>79,359</b>	<b>50,353</b>	<b>27,465</b>	<b>-</b>	<b>-</b>	<b>195,849</b>	<b>106,824</b>	<b>89,025</b>
<b>29 NET OPERATING INCOME (NOI)</b>	<b>5000T</b>	<b>(19,521)</b>	<b>(8,222)</b>	<b>(50,353)</b>	<b>(2,845)</b>	<b>-</b>	<b>-</b>	<b>(69,874)</b>	<b>(11,068)</b>	<b>58,806</b>
<b>FINANCIAL EXPENSES: 6800</b>										
30 Non-Contingent Debt Service (specify lender)	6895	-	-	-	-	-	-	-	-	-
1st Mortgage =		-	-	-	-	-	-	-	-	-
2nd Mortgage =		-	-	-	-	-	-	-	-	-
3rd Mortgage =		-	-	-	-	-	-	-	-	-
31 HCD Required Payments	6890	-	-	5,900	5,900	-	-	5,900	5,900	-
32 Lease Payment	6890	-	-	-	-	-	-	-	-	-
33 Miscellaneous Financial Expenses	6890	-	-	-	-	-	-	-	-	-
<b>Total Financial Expenses</b>	<b>6800T</b>	<b>-</b>	<b>-</b>	<b>5,900</b>	<b>5,900</b>	<b>-</b>	<b>-</b>	<b>5,900</b>	<b>5,900</b>	<b>-</b>
<b>FUNDED RESERVES:</b>										
34 Escrow Deposits	1300	-	-	-	-	-	-	-	-	-
35 Replacement Reserve-Deposit	1320	21,000	21,000	-	-	-	-	21,000	21,000	-
36 Operating Reserve-Deposit	1300	-	-	-	-	-	-	-	-	-
37 Other Reserves (specify)										
#1	1330	-	-	-	-	-	-	-	-	-
#2	1330	-	-	-	-	-	-	-	-	-
#3	1330	-	-	-	-	-	-	-	-	-
<b>Total Reserve Deposits</b>		<b>21,000</b>	<b>21,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21,000</b>	<b>21,000</b>	<b>-</b>
<b>38 PROJECT CASH FLOW (CF)</b>		<b>(40,521)</b>	<b>(29,222)</b>	<b>(56,253)</b>	<b>(8,745)</b>	<b>-</b>	<b>-</b>	<b>(96,774)</b>	<b>(37,968)</b>	<b>58,806</b>
<b>ADDITIONAL REVENUE:</b>										
39 RHCP-O Annuity Fund Request (For Assisted Units Only)		40,521	29,222	-	-	-	-	40,521	29,222	(11,299)
40 Withdrawal from Operating Reserves		-	-	-	-	-	-	-	-	-
41 Borrower Contribution		-	-	-	-	-	-	-	-	-
42 Other (specify)		-	-	-	-	-	-	-	-	-
<b>Total Additional Revenue</b>		<b>40,521</b>	<b>29,222</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>40,521</b>	<b>29,222</b>	<b>(11,299)</b>
<b>USE OF CASH FLOW:</b>										
43 HCD Interest Payments		-	-	-	-	-	-	-	-	-
44 Asset Mgmt Fee (CHRP-R/SUHRP & HOME-pre-UMR Only)		-	-	-	-	-	-	-	-	-
45 Asset Mgmt Fee/Prtrshp Costs (MHP/HOME under UMR)		-	-	-	-	-	-	-	-	-
46 Borrower Distributions		-	-	-	-	-	-	-	-	-
47 Residual Receipt Loan Payments		-	-	-	-	-	-	-	-	-
48 Other (specify)		-	-	-	-	-	-	-	-	-
<b>Total Use of Cash Flow</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

# Rental Housing Construction Program (RHCP) - Original

## REPORT OF ACTUAL OPERATING COSTS

Reporting Period: 7/1/2015 to 06/30/2016

Contract No: 80-RHC-002  
Project Name: Adaptable Housing  
Prepared by: Christy A Huerto  
Date Prepared: 6/30/2016

Units/Sq. Ft. - Assisted: 26  
Units/Sq. Ft. - Total: 35  
Unit Months: 420

ACCOUNT NAME		UNIT EXPENSES						PROJECT TOTALS		
	ACCOUNT CODES	Approved Assisted "Unaudited" (A)	Actual Assisted	Approved Non-Assisted	Actual Non-Assisted	Proposed Commercial	Actual Commercial	Approved Total Expenses "Unaudited"	Total Actual Expenses (B)	Project Variance (C)
<b>MANAGEMENT FEE: 6200/6300</b>										
1 Management Fee	6320	\$ 21,283	\$ 21,283	\$ 7,365	\$ 7,365	\$ -	\$ -	\$ 28,648	28,648	\$ -
<b>ADMINISTRATIVE EXPENSES: 6200/6300</b>										
2 Advertising	6210	198	1,101	68	381	-	-	266	1,482	(1,216)
3 Apartment Resale Expense (Cooperatives)	6235	-	-	-	-	-	-	-	-	-
4 Other Renting Expenses	6250	79	75	27	26	-	-	106	101	5
5 Office Salaries	6310	16,255	604	5,625	209	-	-	21,880	813	21,067
6 Office Supplies	6311	1,695	323	586	112	-	-	2,281	435	1,846
7 Office or Model Apartment Rent	6312	-	-	-	-	-	-	-	-	-
8 Manager and Superintendent Salaries	6330	9,000	9,706	3,115	3,359	-	-	12,115	13,065	(950)
9 Manager's or Superintendent's Rent Free Unit	6331	-	-	-	-	-	-	-	-	-
10 Legal Expense - Project	6340	276	-	96	-	-	-	372	-	372
11 Audit Expense - Project	6350	468	1,857	162	643	-	-	630	2,500	(1,870)
12 Bookkeeping Fees/Accounting Services	6351	6,526	6,227	2,258	2,156	-	-	8,784	8,383	401
13 Telephone and Answering Service Expenses	6360	79	894	27	309	-	-	106	1,203	(1,097)
14 Bad Debt Expense	6370	-	-	-	-	-	-	-	-	-
15 Miscellaneous Administrative Expenses (specify)	6390	2,648	720	917	249	-	-	3,565	969	2,596
<b>16 TOTAL ADMINISTRATIVE EXPENSES</b>	<b>6200/6300T</b>	<b>37,224</b>	<b>21,507</b>	<b>12,881</b>	<b>7,444</b>	<b>-</b>	<b>-</b>	<b>50,105</b>	<b>28,951</b>	<b>21,154</b>
<b>UTILITIES EXPENSES: 6400</b>										
17 Fuel Oil/Coal	6420	-	-	-	-	-	-	-	-	-
18 Electricity	6450	1,628	3,002	563	1,039	-	-	2,191	4,041	(1,850)
19 Water	6451	8,685	3,030	3,005	1,049	-	-	11,690	4,079	7,611
20 Gas	6452	7,615	2,666	2,635	923	-	-	10,250	3,589	6,661
21 Sewer	6453	9,456	2,158	3,273	747	-	-	12,729	2,905	9,824
<b>22 TOTAL UTILITIES EXPENSES</b>	<b>6400T</b>	<b>27,384</b>	<b>10,856</b>	<b>9,476</b>	<b>3,758</b>	<b>-</b>	<b>-</b>	<b>36,860</b>	<b>14,614</b>	<b>22,246</b>
<b>OPERATING AND MAINTENANCE EXPENSES: 6500</b>										
23 Janitor and Cleaning Payroll	6510	-	-	-	-	-	-	-	-	-
24 Janitor and Cleaning Supplies	6515	-	-	-	-	-	-	-	-	-
25 Janitor and Cleaning Contracts	6517	5,262	-	1,821	-	-	-	7,083	-	7,083
26 Exterminating Payroll/Contract	6519	1,893	554	655	192	-	-	2,548	746	1,802
27 Exterminating Supplies	6520	-	-	-	-	-	-	-	-	-
28 Garbage and Trash Removal	6525	3,272	2,477	1,133	857	-	-	4,405	3,334	1,071
29 Security Payroll/Contract	6530	-	-	-	-	-	-	-	-	-
30 Grounds Payroll	6535	-	-	-	-	-	-	-	-	-
31 Grounds Supplies	6536	-	-	-	-	-	-	-	-	-
32 Grounds Contract	6537	11,276	9,209	3,903	3,187	-	-	15,179	12,396	2,783
33 Repairs Payroll	6540	1,497	896	518	310	-	-	2,015	1,206	809
34 Repairs Material	6541	-	124	-	43	-	-	-	167	(167)
35 Repairs Contract	6542	24,176	6,850	8,367	2,371	-	-	32,543	9,221	23,322
36 Elevator Maintenance/Contract	6545	-	-	-	-	-	-	-	-	-
37 Heating/Cooling Repairs and Maintenance	6546	-	-	-	-	-	-	-	-	-
38 Swimming Pool Maintenance/Contract	6547	-	-	-	-	-	-	-	-	-
39 Snow Removal	6548	-	-	-	-	-	-	-	-	-
40 Decorating/Payroll Contract	6560	1,712	-	593	-	-	-	2,305	-	2,305
41 Decorating Supplies	6561	-	-	-	-	-	-	-	-	-
42 Vehicle and Maint. Equipment Operation/Repairs	6570	418	271	144	92	-	-	562	363	199
43 Misc. Operating and Maintenance Expenses (specify)	6590	269	-	94	-	-	-	363	-	363
<b>44 TOTAL OPERATING &amp; MAINTENANCE EXPENSES</b>	<b>6500T</b>	<b>49,775</b>	<b>20,381</b>	<b>17,228</b>	<b>7,052</b>	<b>-</b>	<b>-</b>	<b>67,003</b>	<b>27,433</b>	<b>39,570</b>
<b>TAXES AND INSURANCE: 6700</b>										
45 Real Estate Taxes	6710	-	-	-	-	-	-	-	-	-
46 Payroll Taxes (Project's Share)	6711	-	-	-	-	-	-	-	-	-
47 Misc. Taxes, Licenses and Permits	6719	-	-	-	-	-	-	-	-	-
48 Property and Liability Insurance (Hazard)	6720	1,869	2,429	647	841	-	-	2,516	3,270	(754)
49 Fidelity Bond Insurance	6721	-	-	-	-	-	-	-	-	-
50 Worker's Compensation	6722	-	-	-	-	-	-	-	-	-
51 Health Insurance and Other Employee Benefits	6723	3,724	2,903	1,289	1,005	-	-	5,013	3,908	1,105
52 Other Insurance	6729	-	-	-	-	-	-	-	-	-
<b>53 TOTAL TAXES AND INSURANCE</b>	<b>6700T</b>	<b>5,593</b>	<b>5,332</b>	<b>1,936</b>	<b>1,846</b>	<b>-</b>	<b>-</b>	<b>7,529</b>	<b>7,178</b>	<b>351</b>
<b>ASSISTED LIVING/BOARD &amp; CARE EXPENSES: 6900</b>										
54 Food	6932	-	-	-	-	-	-	-	-	-
55 Recreation and Rehabilitation	6980	-	-	-	-	-	-	-	-	-
56 Rehabilitation Salaries	6983	-	-	-	-	-	-	-	-	-
57 Other Service Expenses	6990	-	-	-	-	-	-	-	-	-
<b>58 TOTAL ASSISTED LIVING EXPENSES</b>	<b>6900T</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>60 CONTINGENCY RESERVE</b>		<b>4,237</b>	<b>-</b>	<b>1,467</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,704</b>	<b>-</b>	<b>5,704</b>
<b>61 TOTAL OPERATING COSTS</b>		<b>\$ 145,496</b>	<b>\$ 79,359</b>	<b>\$ 50,353</b>	<b>\$ 27,465</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 195,849</b>	<b>\$ 106,824</b>	<b>\$ 89,025</b>

Independent Auditor's Report on Internal Control over Financial Reporting and  
on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards*

To the Board of Commissioners  
San Diego Housing Commission

We have audited, in accordance with 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 statement of project operations of San Diego Housing Commission's Scattered Sites Housing Development Project No. 12-HLCP-0004 (the "Project") for the year ended June 30, 2016, and have issued our report thereon dated November 9, 2016.

#### Internal Control over Financial Reporting

In planning and performing our audit of the statement of project operations, we considered the Project'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 statement, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control. Accordingly, we do not express an opinion on the effectiveness of the Project's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the statement of project operations 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 statement of project operations 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 material effect on the determination of statement of project operations 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*.

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 Project'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 Project's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CohnReznick LLP".

Sacramento, California  
November 9, 2016



**ATTACHMENT 6**

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

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

**June 30, 2015**

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

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

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

**June 30, 2015**

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

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Leslie Levinson 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, 2015**

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

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Richard Gentry  
Chief Executive Officer

Date

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Deborah N. Ruane  
Senior Vice President  
Property Manager

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, 2015, 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, 2015, 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.

### *Other Matters*

### *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 33 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 33 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 33 is fairly stated, in all material respects, in relation to the financial statements as a whole.

The accompanying other information on page 39 has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2015 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.



Sacramento, California  
September 30, 2015

Taxpayer Identification Number:  
22-1478099

Lead Auditor: Ahamadou Alainchar Bocar, CPA

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

**Balance Sheet**  
**June 30, 2015**

Assets

Current assets		
Cash - operations		\$ 1,127,721
Tenant accounts receivable	\$ 21,325	
Allowance for doubtful accounts	<u>(4,176)</u>	
		17,149
Accounts receivable - HUD		1,513
Accounts and notes receivable - entity		16,969
Prepaid expenses		<u>25,828</u>
Total current assets		1,189,180
Deposits held in trust - funded		
Tenant deposits		86,286
Restricted deposits and funded reserves		
Escrow deposits	61,148	
Reserve for replacements	<u>811,269</u>	
		872,417
Rental property		
Land	3,690,974	
Building and improvements	<u>7,307,739</u>	
	10,998,713	
Less accumulated depreciation	<u>(1,541,720)</u>	
		9,456,993
Other assets		
Deferred financing costs, net of accumulated amortization of \$84,159	<u>410,439</u>	
		<u>410,439</u>
		<u><u>\$ 12,015,315</u></u>



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

**Balance Sheet**  
**June 30, 2015**

Liabilities and Member's Equity (Deficit)

Current liabilities		
Accounts payable - operations	\$	61,348
Accrued wages payable		10,996
Accrued interest payable - first mortgage		50,900
Mortgage payable - first mortgage, current maturities		294,086
Prepaid revenue		<u>7,497</u>
Total current liabilities		424,827
Deposits liability		
Tenant deposits held in trust (contra)		86,286
Long-term liabilities		
Mortgage payable - first mortgage, net of current maturities	<u>\$ 15,950,538</u>	<u>15,950,538</u>
Total liabilities		16,461,651
Member's equity (deficit)		<u>(4,446,336)</u>
		<u><u>\$ 12,015,315</u></u>

See Notes to Financial Statements.

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

**Statement of Operations**  
**Year Ended June 30, 2015**

Rental revenue		
Rent revenue - gross potential	\$ 1,711,632	
Tenant assistance payments	<u>1,029,297</u>	
Total rental revenue		<u>\$ 2,740,929</u>
Vacancies		
Apartment	(93,322)	
Rental concessions	<u>(8,910)</u>	
Total vacancies		<u>(102,232)</u>
Net rental revenue		2,638,697
Financial revenue		
Financial revenue - project operations	111	
Revenue from investments - replacement reserve	<u>486</u>	
Total financial revenue		597
Other revenue		
Laundry and vending	40,447	
Tenant charges	18,180	
Miscellaneous revenue	<u>199,786</u>	
Total other revenue		<u>258,413</u>
Total revenue		<u>2,897,707</u>

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

**Statement of Operations**  
**Year Ended June 30, 2015**

Administrative expenses		
Advertising and marketing	808	
Other renting expenses	100	
Office salaries	55,433	
Office expenses	8,936	
Management fee	133,157	
Administrative rent free unit	37,308	
Legal expense - project	11,192	
Auditing expense	11,650	
Bad debts	42,104	
Miscellaneous administrative expenses	<u>2,004</u>	
Total administrative expenses		302,692
Utilities expense		
Electricity	11,180	
Water	87,871	
Gas	24,755	
Sewer	<u>85,659</u>	
Total utilities expense		209,465
Operating and maintenance expenses		
Payroll	45,559	
Supplies	21,979	
Contracts	212,134	
Garbage and trash removal	21,801	
Security payroll/contract	1,515	
Vehicle and maintenance equipment operation and repairs	<u>426</u>	
Total operating and maintenance expenses		303,414

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

**Statement of Operations**  
**Year Ended June 30, 2015**

Taxes and insurance		
Real estate taxes	2,393	
Property and liability insurance	22,182	
Workmen's compensation	7,439	
Health insurance and other employee benefits	40,341	
Miscellaneous taxes, licenses, permits and insurance	<u>6,800</u>	
Total taxes and insurance		79,155
Financial expenses		
Interest on first mortgage payable	615,712	
Mortgage insurance premium/service charge	<u>73,579</u>	
Total financial expenses		<u>689,291</u>
Total cost of operations before depreciation and amortization		<u>1,584,017</u>
Income (loss) before depreciation and amortization		<u>1,313,690</u>
Depreciation and amortization		
Depreciation expense	320,145	
Amortization expense	<u>17,661</u>	
Total depreciation and amortization		<u>337,806</u>
Total expenses		<u>1,921,823</u>
Net income (loss)		<u><u>\$ 975,884</u></u>

See Notes to Financial Statements.

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

**Statement of Member's Equity (Deficit)**  
**Year Ended June 30, 2015**

Member's equity (deficit), June 30, 2014	\$ (5,154,466)
Distributions	(267,754)
Net income (loss)	<u>975,884</u>
Member's equity (deficit), June 30, 2015	<u><u>\$ (4,446,336)</u></u>

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

**Statement of Cash Flows**  
**Year Ended June 30, 2015**

Cash flows from operating activities	
Rental receipts	\$ 2,600,957
Interest receipts	597
Other operating receipts	<u>258,413</u>
Total receipts	<u>2,859,967</u>
Administrative expenses paid	(23,729)
Management fees paid	(133,157)
Utilities paid	(209,465)
Salaries and wages paid	(93,009)
Operating and maintenance paid	(499,509)
Real estate taxes paid	(2,393)
Property insurance paid	(22,182)
Miscellaneous taxes and insurance paid	(6,800)
Other operating expenses paid	(47,780)
Interest paid on first mortgage	(616,599)
Mortgage insurance premium paid	<u>(72,797)</u>
Total disbursements	<u>(1,727,420)</u>
Net cash provided by operating activities	<u>1,132,547</u>
Cash flows from investing activities	
Net withdrawals from mortgage escrows	6,362
Net deposits to reserve for replacements	(54,386)
Entity/construction investing activities (include detail)	
Advance to sole member	<u>\$ (16,969)</u>
	<u>(16,969)</u>
Net cash used in investing activities	<u>(64,993)</u>
Cash flows from financing activities	
Mortgage principal payments - first mortgage	(283,250)
Distributions to member	<u>(267,754)</u>
Net cash used in financing activities	<u>(551,004)</u>
Net increase in cash	516,550
Cash, beginning	<u>611,171</u>
Cash, end	<u><u>\$ 1,127,721</u></u>

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

**Statement of Cash Flows**  
**Year Ended June 30, 2015**

Reconciliation of net income (loss) to net cash provided by operating activities	
Net income (loss)	\$ 975,884
Adjustments to reconcile net income (loss) to net cash provided by operating activities	
Depreciation	320,145
Amortization	17,661
Changes in asset and liability accounts	
(Increase) decrease in assets	
Tenant accounts receivable	32,264
Accounts receivable - other	5,271
Prepaid expenses	782
Tenant security deposits funded	(2,301)
Increase (decrease) in liabilities	
Accounts payable	(232,208)
Accrued liabilities	9,498
Accrued interest payable	(887)
Tenant security deposits held in trust	2,301
Prepaid revenue	4,137
Total adjustments	156,663
Net cash provided by operating activities	\$ 1,132,547

See Notes to Financial Statements.

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

**Notes to Financial Statements**  
**June 30, 2015**

**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, 2015, the allowance for doubtful accounts is \$4,176.

**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
---------------------------	---------------

**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



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

**Notes to Financial Statements**  
**June 30, 2015**

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, 2015.

**Deferred financing costs**

Deferred financing costs in the amount of \$494,598 are amortized over the term of the loan using the effective yield method. Amortization expense for deferred financing costs for each of the next five years following June 30, 2015 is as follows:

2016	\$	17,758
2017		17,835
2018		17,891
2019		17,923
2020		17,931

**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 auditing standards 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.

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

**Notes to Financial Statements**  
**June 30, 2015**

**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 insurance and mortgage insurance premiums. As of June 30, 2015, the balance in the escrow deposits is \$61,148.

**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, 2015, the balance in the reserve for replacements is \$811,269.

**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, 2015, the outstanding principal and accrued interest is \$16,244,624 and \$50,900, respectively.

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, 2015, the Company received BAB interest rebate of \$199,786, which is included in other miscellaneous revenue in the statement of operations.

Aggregate annual maturities of the mortgage payable over each of the next five years and thereafter following June 30, 2015 are as follows:

2016	\$	294,086
2017		305,336
2018		317,016
2019		329,144
2020		341,735
Thereafter		<u>14,657,307</u>
		<u>\$ 16,244,624</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

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

**Notes to Financial Statements**  
**June 30, 2015**

based on 5% of the effective gross income of the Projects, as defined. For the year ended June 30, 2015, management fees of \$133,157 were incurred and expensed.

**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, 2015, the Company received housing assistance payments amounting to \$1,029,297.

**Note 7 - 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, 2015.

**Note 8 - 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 notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

**Note 9 - Subsequent events**

Management evaluated all activity of the Company through September 30, 2015 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**  
**HUD Project No.: 129-11053**

**Supplementary Information**

**Balance Sheet Data**  
**June 30, 2015**

<u>Account No.</u>		<u>Assets</u>	
Current assets			
1120	Cash - operations		\$ 1,127,721
1130	Tenant accounts receivable	\$ 21,325	
1131	Allowance for doubtful accounts	(4,176)	
1130N	Net tenants accounts receivable		17,149
1135	Accounts receivable - HUD		1,513
1145	Accounts and notes receivable - entity		16,969
1200	Prepaid expenses		25,828
1100T Total current assets			1,189,180
Deposits held in trust - funded			
1191	Tenant deposits		86,286
Restricted deposits and funded reserves			
1310	Escrow deposits	61,148	
1320	Reserve for replacements	811,269	
1300T	Total deposits		872,417
Rental property			
1410	Land	3,690,974	
1420	Buildings	7,307,739	
1400T	Total fixed assets	10,998,713	
1495	Less accumulated depreciation	(1,541,720)	
1400N	Net fixed assets		9,456,993
Other assets			
1520	Deferred financing costs, net of accumulated amortization of \$84,159	410,439	
1500T	Total other assets		410,439
1000T	Total assets		\$ 12,015,315

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

**Supplementary Information**

**Balance Sheet Data**  
**June 30, 2015**

		<u>Liabilities and Member's Equity (Deficit)</u>	
<u>Account No.</u>			
Current liabilities			
2110	Accounts payable - operations	\$	61,348
2120	Accrued wages payable		10,996
2131	Accrued interest payable - first mortgage		50,900
2170	Mortgage payable - first mortgage, current maturities		294,086
2210	Prepaid revenue		<u>7,497</u>
2122T	Total current liabilities		424,827
Deposits liability			
2191	Tenant deposits held in trust (contra)		86,286
Long-term liabilities			
2320	Mortgage payable - first mortgage, net of current maturities	<u>\$ 15,950,538</u>	
2300T	Total long-term liabilities		<u>15,950,538</u>
2000T	Total liabilities		16,461,651
3130	Member's equity (deficit)		<u>(4,446,336)</u>
2033T	Total liabilities and member's equity (deficit)	\$	<u><u>12,015,315</u></u>

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

**Supplementary Information**

**Statement of Operations Data**  
**Year Ended June 30, 2015**

<u>Account No.</u>			
Rental revenue			
5120	Rent revenue - gross potential	\$ 1,711,632	
5121	Tenant assistance payments	<u>1,029,297</u>	
5100T	Total rental revenue		<u>\$ 2,740,929</u>
Vacancies			
5220	Apartments	(93,322)	
5250	Rental concessions	<u>(8,910)</u>	
5200T	Total vacancies		<u>(102,232)</u>
5152N	Net rental revenue		2,638,697
Financial revenue			
5410	Financial revenue - project operations	111	
5440	Revenue from investments - replacement reserve	<u>486</u>	
5400T	Total financial revenue		597
Other revenue			
5910	Laundry and vending	40,447	
5920	Tenant charges	18,180	
5990	Miscellaneous revenue	<u>199,786</u>	
5900T	Total other revenue		<u>258,413</u>
5000T	Total revenue		<u>2,897,707</u>

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

**Supplementary Information**

**Statement of Operations Data**  
**Year Ended June 30, 2015**

Account No.

Administrative expenses

6210	Advertising and marketing	808
6250	Other renting expenses	100
6310	Office salaries	55,433
6311	Office expenses	8,936
6320	Management fee	133,157
6331	Administrative rent free unit	37,308
6340	Legal expense - project	11,192
6350	Auditing expense	11,650
6370	Bad debts	42,104
6390	Miscellaneous administrative expenses	<u>2,004</u>

6263T	Total administrative expenses		302,692
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Utilities expense

6450	Electricity	11,180
6451	Water	87,871
6452	Gas	24,755
6453	Sewer	<u>85,659</u>

6400T	Total utilities expense		209,465
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Operating and maintenance expenses

6510	Payroll	45,559
6515	Supplies	21,979
6520	Contracts	212,134
6525	Garbage and trash removal	21,801
6530	Security payroll/contract	1,515
6570	Vehicle and maintenance equipment operation and repairs	<u>426</u>

6500T	Total operating and maintenance expenses		303,414
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**Northern SDHC FHA LLC**  
**HUD Project No.: 129-11053**

**Supplementary Information**

**Statement of Operations Data**  
**Year Ended June 30, 2015**

Account No.

Taxes and insurance		
6710	Real estate taxes	2,393
6720	Property and liability insurance	22,182
6722	Workmen's compensation	7,439
6723	Health insurance and other employee benefits	40,341
6790	Miscellaneous taxes, licenses, permits and insurance	6,800
		<hr/>
6700T	Total taxes and insurance	79,155
Financial expenses		
6820	Interest on first mortgage payable	615,712
6850	Mortgage insurance premium/service charge	73,579
		<hr/>
6800T	Total financial expenses	689,291
		<hr/>
6000T	Total cost of operations before depreciation and amortization	1,584,017
		<hr/>
5060T	Income (loss) before depreciation and amortization	1,313,690
Depreciation and amortization		
6600	Depreciation expense	320,145
6610	Amortization expense	17,661
		<hr/>
Total depreciation and amortization		337,806
		<hr/>
5060N	Operating income (loss)	975,884
		<hr/>
Total expenses		1,921,823
		<hr/>
3250	Net income (loss)	\$ 975,884
		<hr/>

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

**Supplementary Information**

**Statement of Operations Data  
Year Ended June 30, 2015**

Account No.

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>\$ 283,250</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>\$ 53,900</u>
S1000-030	Replacement reserve, or residual receipts and releases which are included as expense items on the statement of operations.	<u>\$ -</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, 2015

<u>Account No.</u>		
S1100-010	Member's equity (deficit), June 30, 2014	\$ (5,154,466)
S1200-420	Distributions	(267,754)
3250	Net income (loss)	<u>975,884</u>
3130	Member's equity (deficit), June 30, 2015	<u><u>\$ (4,446,336)</u></u>

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

**Supplementary Information**

**Statement of Cash Flows Data**  
**Year Ended June 30, 2015**

<u>Account No.</u>		
	Cash flows from operating activities	
S1200-010	Rental receipts	\$ 2,600,957
S1200-020	Interest receipts	597
S1200-030	Other operating receipts	<u>258,413</u>
S1200-040	Total receipts	<u>2,859,967</u>
S1200-050	Administrative expenses paid	(23,729)
S1200-070	Management fees paid	(133,157)
S1200-090	Utilities paid	(209,465)
S1200-100	Salaries and wages paid	(93,009)
S1200-110	Operating and maintenance paid	(499,509)
S1200-120	Real estate taxes paid	(2,393)
S1200-140	Property insurance paid	(22,182)
S1200-150	Miscellaneous taxes and insurance paid	(6,800)
S1200-170	Other operating expenses paid	(47,780)
S1200-180	Interest paid on first mortgage	(616,599)
S1200-210	Mortgage insurance premium paid	<u>(72,797)</u>
S1200-230	Total disbursements	<u>(1,727,420)</u>
S1200-240	Net cash provided by operating activities	<u>1,132,547</u>
	Cash flows from investing activities	
S1200-245	Net withdrawals from mortgage escrows	6,362
S1200-250	Net deposits to reserve for replacements	(54,386)
S1200-345	Entity/construction investing activities (include detail)	
S1200-346	Advance to sole member	<u>\$ (16,969)</u>
		<u>(16,969)</u>
S1200-350	Net cash used in investing activities	<u>(64,993)</u>

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

**Supplementary Information**

**Statement of Cash Flows Data**  
**Year Ended June 30, 2015**

<u>Account No.</u>		
	Cash flows from financing activities	
S1200-360	Mortgage principal payments - first mortgage	(283,250)
S1200-420	Distributions	<u>(267,754)</u>
S1200-460	Net cash used in financing activities	<u>(551,004)</u>
S1200-470	Net increase in cash	516,550
S1200-480	Cash, beginning	<u>611,171</u>
S1200T	Cash, end	<u><u>\$ 1,127,721</u></u>

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

**Supplementary Information**

**Statement of Cash Flows Data**  
**Year Ended June 30, 2015**

<u>Account No.</u>		
	Reconciliation of net income (loss) to net cash provided by operating activities	
3250	Net income (loss)	\$ 975,884
	Adjustments to reconcile net income (loss) to net cash provided by operating activities	
6600	Depreciation	320,145
6610	Amortization	17,661
	Changes in asset and liability accounts	
	(Increase) decrease in assets	
S1200-490	Tenant accounts receivable	32,264
S1200-500	Accounts receivable - other	5,271
S1200-520	Prepaid expenses	782
S1200-530	Tenant security deposits funded	(2,301)
	Increase (decrease) in liabilities	
S1200-540	Accounts payable	(232,208)
S1200-560	Accrued liabilities	9,498
S1200-570	Accrued interest payable	(887)
S1200-580	Tenant security deposits held in trust	2,301
S1200-590	Prepaid revenue	4,137
	Total adjustments	156,663
S1200-610	Net cash provided by operating activities	\$ 1,132,547

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

Supplementary Information  
Year Ended June 30, 2015

**Reserve for Replacements**

<u>Account No.</u>		
1320P	Balance at June 30, 2014	\$ 756,883
1320DT	Total monthly deposits	53,900
1320INT	Interest income	<u>486</u>
1320	Balance at June 30, 2015	<u><u>\$ 811,269</u></u>

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

**Supplementary Information**  
**Period Ended December 31, 2014**

**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)	\$ 755,267
S1400-030	Accounts receivable - HUD	9,493
		<hr/>
S1400-050	Total cash	764,760
		<hr/>
S1400-060	Accrued mortgage interest payable	51,348
S1400-070	Delinquent mortgage principal payments	-
S1400-080	Delinquent deposits to reserve for replacements	-
S1400-090	Accounts payable (due within 30 days)	62,301
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)	51
S1400-130	Prepaid revenue (Account 2210)	19,926
S1400-140	Tenant security deposits liability (Account 2191)	88,000
		<hr/>
S1400-180	Less total current obligations	221,626
		<hr/>
S1400-190	Surplus cash	<u><u>\$ 543,134</u></u>



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

**Supplementary Information**  
**Year Ended June 30, 2015**

**Computation of Surplus Cash**

<u>Account No.</u>	<u>Part A - Compute Surplus Cash</u>	
S1300-010	Cash (Accounts 1120, 1170 and 1191)	\$ 1,214,007
1135	Accounts receivable - HUD	<u>1,513</u>
S1300-040	Total cash	<u>1,215,520</u>
S1300-050	Accrued mortgage interest payable	50,900
S1300-060	Delinquent mortgage principal payments	-
S1300-070	Delinquent deposits to reserve for replacements	-
S1300-075	Accounts payable (due within 30 days)	61,348
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)	10,996
2210	Prepaid revenue (Account 2210)	7,497
2191	Tenant security deposits liability (Account 2191)	<u>86,286</u>
S1300-140	Less total current obligations	<u>217,027</u>
S1300-150	Surplus cash	<u><u>\$ 998,493</u></u>

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

**Supplementary Information**  
**Year Ended June 30, 2015**

**Changes in Fixed Asset Accounts**

	Assets			Balance 06/30/15
	Balance 06/30/14	Additions	Deletions	
Land	\$ 3,690,974	\$ -	\$ -	\$ 3,690,974
Buildings	7,307,739	-	-	7,307,739
	<u>\$ 10,998,713</u>	<u>\$ -</u>	<u>\$ -</u>	10,998,713
Accumulated depreciation	<u>\$ 1,221,575</u>	<u>\$ 320,145</u>	<u>\$ -</u>	<u>1,541,720</u>
Total net book value				<u>\$ 9,456,993</u>

**Detail of Accounts - Balance Sheet**

Accounts and Notes Receivable - Entity (Account No. 1145)

Advance to sole member	<u>\$ 16,969</u>
	<u>\$ 16,969</u>

**Detail of Accounts - Statement of Operations**

Miscellaneous Other Revenue (Account No. 5990)

Interest rebate - Build America Bonds	<u>\$ 199,786</u>
	<u>\$ 199,786</u>

**Other Information**

Related party transactions detail:

Account No.	Entity name	Amount paid
S3100-210	Management fee paid to SDHC	<u>\$ 133,157</u>
		<u>\$ 133,157</u>

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, 2015, 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 30, 2015.

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 "CohnReznick LLP". The signature is written in a cursive, flowing style.

Sacramento, California  
September 30, 2015

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, 2015. Northern SDHC FHA LLC's major HUD program is as follows:

- 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, 2015.

## 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.

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

Sacramento, California  
September 30, 2015

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

**Schedule of Findings and Questioned Costs  
June 30, 2015**

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, 2015**

1. Audit Report, dated September 25, 2014, for the year ended June 30, 2014, 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.



## **ATTACHMENT 7**

**Southern SDHC FHA LLC  
HUD Project No.: 129-11055**

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

**June 30, 2015**

**Southern SDHC FHA LLC**  
**HUD Project No.: 129-11055**

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**Southern SDHC FHA LLC**  
**HUD Project No.: 129-11055**

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**Southern SDHC FHA LLC**  
**HUD Project No.: 129-11055**

**June 30, 2015**

Mortgagor's Certification

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

Sole Member  
San Diego Housing Commission

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

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Richard Gentry Date  
Chief Executive Officer

**Southern SDHC FHA LLC  
HUD Project No.: 129-11055**

**June 30, 2015**

Managing Agent's Certification

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

Managing Agent

San Diego Housing Commission

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Richard Gentry  
Chief Executive Officer

Date

---

Deborah N. Ruane  
Senior Vice President  
Property Manager

Managing Agent Taxpayer  
Identification Number: 95-3390896

## Independent Auditor's Report

To the Sole Member  
Southern SDHC FHA LLC

### Report on the Financial Statements

We have audited the accompanying financial statements of Southern SDHC FHA LLC, which comprise the balance sheet as of June 30, 2015, 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 Southern SDHC FHA LLC as of June 30, 2015, 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.

### *Other Matters*

### *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 33 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 33 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 33 is fairly stated, in all material respects, in relation to the financial statements as a whole.

The accompanying other information on page 39 has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2015, on our consideration of Southern 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 Southern SDHC FHA LLC's internal control over financial reporting and compliance.



Sacramento, California  
September 30, 2015

Taxpayer Identification Number:  
22-1478099

Lead Auditor: Ahamadou Alainchar Bocar, CPA

**Southern SDHC FHA LLC**  
**HUD Project No.: 129-11055**

**Balance Sheet**  
**June 30, 2015**

Assets

Current assets		
Cash - operations		\$ 1,514,330
Tenant accounts receivable	\$ 4,271	
Allowance for doubtful accounts	<u>(1,717)</u>	
		2,554
Accounts receivable - HUD		3,512
Accounts and notes receivable - entity		6,851
Prepaid expenses		<u>37,519</u>
Total current assets		1,564,766
Deposits held in trust - funded		
Tenant deposits		175,933
Restricted deposits and funded reserves		
Escrow deposits	90,717	
Reserve for replacements	<u>730,332</u>	
		821,049
Rental property		
Land	3,682,655	
Building and improvements	<u>6,537,901</u>	
	10,220,556	
Less accumulated depreciation	<u>(1,555,788)</u>	
		8,664,768
Other assets		
Deferred financing costs, net of accumulated amortization of \$115,413	<u>562,504</u>	
		<u>562,504</u>
		<u><u>\$ 11,789,020</u></u>



**Southern SDHC FHA LLC**  
**HUD Project No.: 129-11055**

**Balance Sheet**  
**June 30, 2015**

Liabilities and Member's Equity (Deficit)

Current liabilities		
Accounts payable - operations	\$	108,642
Accrued wages payable		24,617
Accrued interest payable - first mortgage		72,763
Mortgage payable - first mortgage, current maturities		420,405
Prepaid revenue		<u>11,875</u>
Total current liabilities		638,302
Deposits liability		
Tenant deposits held in trust (contra)		175,931
Long-term liabilities		
Mortgage payable - first mortgage, net of current maturities	<u>\$</u>	<u>22,801,808</u>
		<u>22,801,808</u>
Total liabilities		23,616,041
Member's equity (deficit)		<u>(11,827,021)</u>
	\$	<u><u>11,789,020</u></u>

See Notes to Financial Statements.

**Southern SDHC FHA LLC**  
**HUD Project No.: 129-11055**

**Statement of Operations**  
**Year Ended June 30, 2015**

Rental revenue		
Rent revenue - gross potential	\$ 2,449,854	
Tenant assistance payments	<u>1,557,334</u>	
Total rental revenue		<u>\$ 4,007,188</u>
Vacancies		
Apartment	(36,914)	
Rental concessions	<u>(11,278)</u>	
Total vacancies		<u>(48,192)</u>
Net rental revenue		3,958,996
Financial revenue		
Financial revenue - project operations	221	
Revenue from investments - replacement reserve	<u>424</u>	
Total financial revenue		645
Other revenue		
Laundry and vending	64,362	
Tenant charges	36,331	
Miscellaneous revenue	<u>285,600</u>	
Total other revenue		<u>386,293</u>
Total revenue		<u>4,345,934</u>

**Southern SDHC FHA LLC**  
**HUD Project No.: 129-11055**

**Statement of Operations**  
**Year Ended June 30, 2015**

Administrative expenses		
Other renting expenses	912	
Office salaries	104,713	
Office expenses	10,970	
Management fee	200,115	
Administrative rent free unit	41,465	
Legal expense - project	6,864	
Auditing expense	11,650	
Bad debts	12,812	
Miscellaneous administrative expenses	<u>4,259</u>	
Total administrative expenses		393,760
Utilities expense		
Electricity	28,275	
Water	168,922	
Gas	45,909	
Sewer	<u>133,424</u>	
Total utilities expense		376,530
Operating and maintenance expenses		
Payroll	96,714	
Supplies	31,763	
Contracts	442,796	
Garbage and trash removal	37,741	
Security payroll/contract	51,217	
Vehicle and maintenance equipment operation and repairs	<u>1,352</u>	
Total operating and maintenance expenses		661,583

**Southern SDHC FHA LLC**  
**HUD Project No.: 129-11055**

**Statement of Operations**  
**Year Ended June 30, 2015**

Taxes and insurance		
Real estate taxes	10	
Property and liability insurance	36,361	
Workmen's compensation	14,210	
Health insurance and other employee benefits	76,426	
Miscellaneous taxes, licenses, permits and insurance	<u>6,800</u>	
Total taxes and insurance		133,807
Financial expenses		
Interest on first mortgage payable	880,181	
Mortgage insurance premium/service charge	<u>105,184</u>	
Total financial expenses		<u>985,365</u>
Total cost of operations before depreciation and amortization		<u>2,551,045</u>
Income (loss) before depreciation and amortization		<u>1,794,889</u>
Depreciation and amortization		
Depreciation expense	323,193	
Amortization expense	<u>24,218</u>	
Total depreciation and amortization		<u>347,411</u>
Total expenses		<u>2,898,456</u>
Net income (loss)		<u><u>\$ 1,447,478</u></u>

See Notes to Financial Statements.

**Southern SDHC FHA LLC**  
**HUD Project No.: 129-11055**

**Statement of Member's Equity (Deficit)**  
**Year Ended June 30, 2015**

Member's equity (deficit), June 30, 2014	\$ (12,746,766)
Distributions	(527,733)
Net income (loss)	<u>1,447,478</u>
Member's equity (deficit) June 30, 2015	<u><u>\$ (11,827,021)</u></u>

**Southern SDHC FHA LLC**  
**HUD Project No.: 129-11055**

**Statement of Cash Flows**  
**Year Ended June 30, 2015**

Cash flows from operating activities		
Rental receipts	\$	3,918,933
Interest receipts		645
Other operating receipts		<u>386,293</u>
Total receipts		<u>4,305,871</u>
Administrative expenses paid		(20,531)
Management fees paid		(200,115)
Utilities paid		(376,530)
Salaries and wages paid		(230,336)
Operating and maintenance paid		(736,540)
Real estate taxes paid		(10)
Property insurance paid		(36,361)
Miscellaneous taxes and insurance paid		(6,800)
Net tenant security deposits received (paid)		(2)
Other operating expenses paid		(90,636)
Interest paid on first mortgage		(881,450)
Mortgage insurance premium paid		<u>(104,883)</u>
Total disbursements		<u>(2,684,194)</u>
Net cash provided by operating activities		<u>1,621,677</u>
Cash flows from investing activities		
Net withdrawals from mortgage escrows		1,384
Net deposits to reserve for replacements		(90,424)
Entity/construction investing activities (include detail)		
Advance to sole member	\$	<u>(6,851)</u>
		<u>(6,851)</u>
Net cash used in investing activities		<u>(95,891)</u>
Cash flows from financing activities		
Mortgage principal payments - first mortgage		(404,914)
Distributions to member		<u>(527,733)</u>
Net cash used in financing activities		<u>(932,647)</u>
Net increase in cash		593,139
Cash, beginning		<u>921,191</u>
Cash, end	\$	<u><u>1,514,330</u></u>

**Southern SDHC FHA LLC**  
**HUD Project No.: 129-11055**

**Statement of Cash Flows**  
**Year Ended June 30, 2015**

Reconciliation of net income (loss) to net cash provided by operating activities	
Net income (loss)	<u>\$ 1,447,478</u>
Adjustments to reconcile net income (loss) to net cash provided by operating activities	
Depreciation	323,193
Amortization	24,218
Changes in asset and liability accounts	
(Increase) decrease in assets	
Tenant accounts receivable	5,562
Accounts receivable - other	(1,427)
Prepaid expenses	301
Tenant security deposits funded	1,578
Increase (decrease) in liabilities	
Accounts payable	(208,764)
Accrued liabilities	22,308
Accrued interest payable	(1,269)
Tenant security deposits held in trust	(1,580)
Prepaid revenue	<u>10,079</u>
Total adjustments	<u>174,199</u>
Net cash provided by operating activities	<u><u>\$ 1,621,677</u></u>

**Southern SDHC FHA LLC**  
**HUD Project No.: 129-11055**

**Notes to Financial Statements**  
**June 30, 2015**

**Note 1 - Organization and nature of operations**

Southern 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 Company properties, which consist of eight apartment complexes totaling 301 units located in San Diego, California (the "Projects"). The Projects are currently operating under the name of SDHC South 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, 2015, the allowance for doubtful accounts is \$1,717.

**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



**Southern SDHC FHA LLC**  
**HUD Project No.: 129-11055**

**Notes to Financial Statements**  
**June 30, 2015**

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 during the year ended June 30, 2015.

**Deferred financing costs**

Deferred financing costs in the amount of \$677,917 are amortized over the term of the loan using the effective yield method. Amortization expense for deferred financing costs for each of the next five years following June 30, 2015 is as follows:

2016	\$	24,350
2017		24,454
2018		24,530
2019		24,573
2020		24,582

**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, as such, 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 U.S. generally accepted accounting principles 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.

**Southern SDHC FHA LLC**  
**HUD Project No.: 129-11055**

**Notes to Financial Statements**  
**June 30, 2015**

**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 insurance and mortgage insurance premiums. As of June 30, 2015, the balance in the escrow deposits is \$90,717.

**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 \$7,500 are required to be deposited with the mortgage lender. As of June 30, 2015, the balance in the reserve for replacements is \$730,332.

**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 \$25,017,100. 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 \$107,197 through maturity on September 1, 2045. As of June 30, 2015, the outstanding principal and accrued interest is \$23,222,213 and \$72,763, respectively.

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, 2015, the Company received BAB interest rebate of \$285,600, which is included in other miscellaneous revenue in the statement of operations.

Aggregate annual maturities of the mortgage payable over each of the next five years and thereafter following June 30, 2015 are as follows:

2016	\$	420,405
2017		436,487
2018		453,185
2019		470,522
2020		488,521
Thereafter		<u>20,953,093</u>
Total	\$	<u><u>23,222,213</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

**Southern SDHC FHA LLC**  
**HUD Project No.: 129-11055**

**Notes to Financial Statements**  
**June 30, 2015**

based on 5% of the effective gross income of the Projects, as defined. For the year ended June 30, 2015, management fees of \$200,115 were incurred and expensed.

**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, 2015, the Company received housing assistance payments amounting to \$1,557,334.

**Note 7 - 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, 2015.

**Note 8 - Current vulnerability due to certain concentrations**

The Company's principal assets consist of eight apartment complexes totaling 301 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 notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

**Note 9 - Subsequent events**

Management evaluated all activity of the Company through September 30, 2015 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**

**Southern SDHC FHA LLC**  
**HUD Project No.: 129-11055**

**Supplementary Information**

**Balance Sheet Data**  
**June 30, 2015**

		<u>Assets</u>	
<u>Account No.</u>			
Current assets			
1120	Cash - operations		\$ 1,514,330
1130	Tenant accounts receivable	\$ 4,271	
1131	Allowance for doubtful accounts	(1,717)	
1130N	Net tenants accounts receivable		2,554
1135	Accounts receivable - HUD		3,512
1145	Accounts and notes receivable - entity		6,851
1200	Prepaid expenses		37,519
1100T	Total current assets		1,564,766
Deposits held in trust - funded			
1191	Tenant deposits		175,933
Restricted deposits and funded reserves			
1310	Escrow deposits	90,717	
1320	Reserve for replacements	730,332	
1300T	Total deposits		821,049
Rental property			
1410	Land	3,682,655	
1420	Buildings	6,537,901	
1400T	Total fixed assets	10,220,556	
1495	Less accumulated depreciation	(1,555,788)	
1400N	Net fixed assets		8,664,768
Other assets			
1520	Deferred financing costs, net of accumulated amortization of \$115,413	562,504	
1500T	Total other assets		562,504
1000T	Total assets		<u>\$ 11,789,020</u>

**Southern SDHC FHA LLC**  
**HUD Project No.: 129-11055**

**Supplementary Information**

**Balance Sheet Data**  
**June 30, 2015**

		<u>Liabilities and Member's Equity (Deficit)</u>	
<u>Account No.</u>			
Current liabilities			
2110	Accounts payable - operations	\$	108,642
2120	Accrued wages payable		24,617
2131	Accrued interest payable - first mortgage		72,763
2170	Mortgage payable - first mortgage, current maturities		420,405
2210	Prepaid revenue		11,875
		<hr/>	
2122T	Total current liabilities		638,302
Deposits liability			
2191	Tenant deposits held in trust (contra)		175,931
Long-term liabilities			
2320	Mortgage payable - first mortgage, net of current maturities	\$	22,801,808
2300T	Total long-term liabilities		22,801,808
		<hr/>	
2000T	Total liabilities		23,616,041
3130	Member's equity (deficit)		(11,827,021)
		<hr/>	
2033T	Total liabilities and member's equity (deficit)	\$	11,789,020
		<hr/>	

**Southern SDHC FHA LLC**  
**HUD Project No.: 129-11055**

**Supplementary Information**

**Statement of Operations Data**  
**Year Ended June 30, 2015**

<u>Account No.</u>			
Rental revenue			
5120	Rent revenue - gross potential	\$ 2,449,854	
5121	Tenant assistance payments	<u>1,557,334</u>	
5100T	Total rental revenue		<u>\$ 4,007,188</u>
Vacancies			
5220	Apartments	(36,914)	
5250	Rental concessions	<u>(11,278)</u>	
5200T	Total vacancies		<u>(48,192)</u>
5152N	Net rental revenue		3,958,996
Financial revenue			
5410	Financial revenue - project operations	221	
5440	Revenue from investments - replacement reserve	<u>424</u>	
5400T	Total financial revenue		645
Other revenue			
5910	Laundry and vending	64,362	
5920	Tenant charges	36,331	
5990	Miscellaneous revenue	<u>285,600</u>	
5900T	Total other revenue		<u>386,293</u>
5000T	Total revenue		<u>4,345,934</u>

**Southern SDHC FHA LLC  
HUD Project No.: 129-11055**

**Supplementary Information**

**Statement of Operations Data  
Year Ended June 30, 2015**

Account No.

Administrative expenses

6250	Other renting expenses	912
6310	Office salaries	104,713
6311	Office expenses	10,970
6320	Management fee	200,115
6331	Administrative rent free unit	41,465
6340	Legal expense - project	6,864
6350	Auditing expense	11,650
6370	Bad debts	12,812
6390	Miscellaneous administrative expenses	<u>4,259</u>

6263T	Total administrative expenses		393,760
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Utilities expense

6450	Electricity	28,275
6451	Water	168,922
6452	Gas	45,909
6453	Sewer	<u>133,424</u>

6400T	Total utilities expense		376,530
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Operating and maintenance expenses

6510	Payroll	96,714
6515	Supplies	31,763
6520	Contracts	442,796
6525	Garbage and trash removal	37,741
6530	Security payroll/contract	51,217
6570	Vehicle and maintenance equipment operation and repairs	<u>1,352</u>

6500T	Total operating and maintenance expenses		661,583
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**Southern SDHC FHA LLC**  
**HUD Project No.: 129-11055**

**Supplementary Information**

**Statement of Operations Data**  
**Year Ended June 30, 2015**

Account No.

**Taxes and insurance**

6710	Real estate taxes	10
6720	Property and liability insurance	36,361
6722	Workmen's compensation	14,210
6723	Health insurance and other employee benefits	76,426
6790	Miscellaneous taxes, licenses, permits and insurance	6,800

6700T	Total taxes and insurance	133,807
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**Financial expenses**

6820	Interest on first mortgage payable	880,181
6850	Mortgage insurance premium/service charge	105,184

6800T	Total financial expenses	985,365
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6000T	Total cost of operations before depreciation and amortization	2,551,045
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5060T	Income (loss) before depreciation and amortization	1,794,889
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**Depreciation and amortization**

6600	Depreciation expense	323,193
6610	Amortization expense	24,218

	Total depreciation and amortization	347,411
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5060N	Operating income (loss)	1,447,478
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	Total expenses	2,898,456
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3250	Net income (loss)	\$ 1,447,478
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**Southern SDHC FHA LLC  
HUD Project No.: 129-11055**

**Supplementary Information**

**Statement of Operations Data  
Year Ended June 30, 2015**

Account No.

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>\$ 404,914</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>\$ 90,000</u>
S1000-030	Replacement reserve, or residual receipts and releases which are included as expense items on the statement of operations.	<u>\$ -</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>

**Southern SDHC FHA LLC  
HUD Project No.: 129-11055**

**Supplementary Information**

**Statement of Member's Equity (Deficit) Data  
Year Ended June 30, 2015**

<u>Account No.</u>		
S1100-010	Member's equity (deficit), June 30, 2014	\$ (12,746,766)
S1200-420	Distributions	(527,733)
3250	Net income (loss)	<u>1,447,478</u>
3130	Member's equity (deficit), June 30, 2015	<u><u>\$ (11,827,021)</u></u>

**Southern SDHC FHA LLC**  
**HUD Project No.: 129-11055**

**Supplementary Information**

**Statement of Cash Flows Data**  
**Year Ended June 30, 2015**

<u>Account No.</u>		
	Cash flows from operating activities	
S1200-010	Rental receipts	\$ 3,918,933
S1200-020	Interest receipts	645
S1200-030	Other operating receipts	<u>386,293</u>
S1200-040	Total receipts	<u>4,305,871</u>
S1200-050	Administrative expenses paid	(20,531)
S1200-070	Management fees paid	(200,115)
S1200-090	Utilities paid	(376,530)
S1200-100	Salaries and wages paid	(230,336)
S1200-110	Operating and maintenance paid	(736,540)
S1200-120	Real estate taxes paid	(10)
S1200-140	Property insurance paid	(36,361)
S1200-150	Miscellaneous taxes and insurance paid	(6,800)
S1200-160	Net tenant security deposits received (paid)	(2)
S1200-170	Other operating expenses paid	(90,636)
S1200-180	Interest paid on first mortgage	(881,450)
S1200-210	Mortgage insurance premium paid	<u>(104,883)</u>
S1200-230	Total disbursements	<u>(2,684,194)</u>
S1200-240	Net cash provided by operating activities	<u>1,621,677</u>
	Cash flows from investing activities	
S1200-245	Net withdrawals from mortgage escrows	1,384
S1200-250	Net deposits to reserve for replacements	(90,424)
S1200-345	Entity/construction investing activities (include detail)	
S1200-346	Advance to sole member	<u>\$ (6,851)</u>
		<u>(6,851)</u>
S1200-350	Net cash used in investing activities	<u>(95,891)</u>

**Southern SDHC FHA LLC  
HUD Project No.: 129-11055**

**Supplementary Information**

**Statement of Cash Flows Data  
Year Ended June 30, 2015**

<u>Account No.</u>		
	Cash flows from financing activities	
S1200-360	Mortgage principal payments - first mortgage	(404,914)
S1200-420	Distributions	<u>(527,733)</u>
S1200-460	Net cash used in financing activities	<u>(932,647)</u>
S1200-470	Net increase in cash	593,139
S1200-480	Cash, beginning	<u>921,191</u>
S1200T	Cash, end	<u><u>\$ 1,514,330</u></u>

**Southern SDHC FHA LLC**  
**HUD Project No.: 129-11055**

**Supplementary Information**

**Statement of Cash Flows Data**  
**Year Ended June 30, 2015**

<u>Account No.</u>		
	Reconciliation of net income (loss) to net cash provided by operating activities	
3250	Net income (loss)	<u>\$ 1,447,478</u>
	Adjustments to reconcile net income (loss) to net cash provided by operating activities	
6600	Depreciation	323,193
6610	Amortization	24,218
	Changes in asset and liability accounts	
	(Increase) decrease in assets	
S1200-490	Tenant accounts receivable	5,562
S1200-500	Accounts receivable - other	(1,427)
S1200-520	Prepaid expenses	301
S1200-530	Tenant security deposits funded	1,578
	Increase (decrease) in liabilities	
S1200-540	Accounts payable	(208,764)
S1200-560	Accrued liabilities	22,308
S1200-570	Accrued interest payable	(1,269)
S1200-580	Tenant security deposits held in trust	(1,580)
S1200-590	Prepaid revenue	<u>10,079</u>
	Total adjustments	<u>174,199</u>
S1200-610	Net cash provided by operating activities	<u><u>\$ 1,621,677</u></u>

**Southern SDHC FHA LLC  
HUD Project No.: 129-11055**

**Supplementary Information  
Year Ended June 30, 2015**

**Reserve for Replacements**

<u>Account No.</u>		
1320P	Balance at June 30, 2014	\$ 639,908
1320DT	Total monthly deposits	90,000
1320INT	Interest income	<u>424</u>
1320	Balance at June 30, 2015	<u><u>\$ 730,332</u></u>

**Southern SDHC FHA LLC**  
**HUD Project No.: 129-11055**

**Supplementary Information**  
**Period Ended December 31, 2014**

**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)	\$ 1,093,170
S1400-030	Accounts receivable - HUD	4,244
S1400-050	Total cash	1,097,414
S1400-060	Accrued mortgage interest payable	73,403
S1400-070	Delinquent mortgage principal payments	-
S1400-080	Delinquent deposits to reserve for replacements	-
S1400-090	Accounts payable (due within 30 days)	137,768
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)	23,587
S1400-140	Tenant security deposits liability (Account 2191)	176,131
S1400-180	Less total current obligations	410,889
S1400-190	Surplus cash	\$ 686,525



**Southern SDHC FHA LLC**  
**HUD Project No.: 129-11055**

**Supplementary Information**  
**Year Ended June 30, 2015**

**Computation of Surplus Cash**

<u>Account No.</u>	<u>Part A - Compute Surplus Cash</u>	
S1300-010	Cash (Accounts 1120, 1170 and 1191)	\$ 1,690,263
1135	Accounts receivable - HUD	<u>3,512</u>
S1300-040	Total cash	<u>1,693,775</u>
S1300-050	Accrued mortgage interest payable	72,763
S1300-060	Delinquent mortgage principal payments	-
S1300-070	Delinquent deposits to reserve for replacements	-
S1300-075	Accounts payable (due within 30 days)	108,642
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)	24,617
2210	Prepaid revenue (Account 2210)	11,875
2191	Tenant security deposits liability (Account 2191)	<u>175,931</u>
S1300-140	Less total current obligations	<u>393,828</u>
S1300-150	Surplus cash	<u><u>\$ 1,299,947</u></u>

**Southern SDHC FHA LLC**  
**HUD Project No.: 129-11055**

**Supplementary Information**  
**Year Ended June 30, 2015**

**Changes in Fixed Asset Accounts**

	Assets			Balance 06/30/15
	Balance 06/30/14	Additions	Deletions	
Land	\$ 3,682,655	\$ -	\$ -	\$ 3,682,655
Buildings	6,537,901	-	-	6,537,901
	<u>\$ 10,220,556</u>	<u>\$ -</u>	<u>\$ -</u>	10,220,556
Accumulated depreciation	<u>\$ 1,232,595</u>	<u>\$ 323,193</u>	<u>\$ -</u>	1,555,788
Total net book value				<u>\$ 8,664,768</u>

**Detail of Accounts - Balance Sheet**

Accounts and Notes Receivable - Entity (Account No. 1145)

Advance to sole member	<u>\$ 6,851</u>
	<u>\$ 6,851</u>

**Detail of Accounts - Statement of Operations**

Miscellaneous Other Revenue (Account No. 5990)

Interest rebate - Build America Bonds	<u>\$ 285,600</u>
	<u>\$ 285,600</u>

**Other Information**

Related party transactions detail:

Account No.	Entity name	Amount paid
S3100-210	Management fee paid to SDHC	<u>\$ 200,115</u>
		<u>\$ 200,115</u>

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  
Southern SDHC FHA LLC

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Southern SDHC FHA LLC, which comprise the balance sheet as of June 30, 2015 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 30, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Southern 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 Southern SDHC FHA LLC's internal control. Accordingly, we do not express an opinion on the effectiveness of Southern 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 Southern 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 "CohnReznick LLP". The signature is written in a cursive, flowing style.

Sacramento, California  
September 30, 2015

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  
Southern SDHC FHA LLC

Report on Compliance for the Major Program

We have audited Southern 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 Southern SDHC FHA LLC's major U.S. Department of Housing and Urban Development ("HUD") program for the year ended June 30, 2015. Southern SDHC FHA LLC's major HUD program is as follows:

- Section 223(f) mortgage insurance program

*Management's Responsibility for Compliance*

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

*Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for the Southern 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 Southern 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 Southern SDHC FHA LLC's compliance.

*Opinion on the Major HUD Program*

In our opinion, Southern SDHC FHA LLC complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major HUD program for the year ended June 30, 2015.


## Report on Internal Control over Compliance

Management of Southern 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 Southern SDHC FHA LLC's internal control over compliance with the requirements that could have a direct and material effect on the major HUD program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 Southern 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, as defined above. 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 our testing based on the requirements of *the Guide*. Accordingly, this report is not suitable for any other purpose.

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

Sacramento, California  
September 30, 2015

**Southern SDHC FHA LLC  
HUD Project No.: 129-11055**

**Schedule of Findings, Questioned Costs and Recommendations  
June 30, 2015**

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

**Southern SDHC FHA LLC  
HUD Project No.: 129-11055**

**Schedule of the Status of Prior Audit Findings,  
Questioned Costs and Recommendations  
June 30, 2015**

1. Audit Report, dated September 25, 2014, for the year ended June 30, 2014, issued by CohnReznick LLP.
  - There are no open findings from the prior audit report.
2. There were no reports issued by HUD OIG or other Federal agencies or contract administrators during the period covered by this audit.
3. In June 2015, the HUD Real Estate Assessment Center issued a summary report following the physical inspection of the Projects. The inspection was successful and the Projects received a score of 91c. There were no other letters or reports issued by HUD management during the period covered by this audit.



## **ATTACHMENT 8**

**Central SDHC FHA LLC  
HUD Project No.: 129-11054**

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

**June 30, 2015**

**Central SDHC FHA LLC**  
**HUD Project No.: 129-11054**

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**Central SDHC FHA LLC**  
**HUD Project No.: 129-11054**

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**Central SDHC FHA LLC  
HUD Project No.: 129-11054**

**June 30, 2015**

Mortgagor's Certification

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

Sole Member

San Diego Housing Commission

---

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

---

Richard Gentry Date  
Chief Executive Officer

**Central SDHC FHA LLC  
HUD Project No.: 129-11054**

**June 30, 2015**

Managing Agent's Certification

We hereby certify that we have examined the accompanying financial statements and supplementary data of Central 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  
Senior Vice President  
Property Manager

Managing Agent Taxpayer  
Identification Number: 95-3390896

## Independent Auditor's Report

To the Sole Member  
Central SDHC FHA LLC

### Report on the Financial Statements

We have audited the accompanying financial statements of Central SDHC FHA LLC, which comprise the balance sheet as of June 30, 2015, 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 Central SDHC FHA LLC as of June 30, 2015, 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.

### *Other Matters*

#### *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 33 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 33 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 33 is fairly stated, in all material respects, in relation to the financial statements as a whole.

The accompanying other information on page 39 has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2015 on our consideration of Central 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 Central SDHC FHA LLC's internal control over financial reporting and compliance.



Sacramento, California  
September 30, 2015

Taxpayer Identification Number:  
22-1478099

Lead Auditor: Ahamadou Alainchar Bocar, CPA

**Central SDHC FHA LLC**  
**HUD Project No.: 129-11054**

**Balance Sheet**  
**June 30, 2015**

Assets

Current assets		
Cash - operations		\$ 836,590
Tenant accounts receivable	\$ 48,263	
Allowance for doubtful accounts	(11,181)	
		37,082
Accounts receivable - HUD		1,258
Accounts and notes receivable - entity		8,457
Prepaid expenses		31,351
Total current assets		914,738
Deposits held in trust - funded		
Tenant deposits		129,731
Restricted deposits and funded reserves		
Escrow deposits	51,399	
Reserve for replacements	1,195,716	
		1,247,115
Rental property		
Land	3,852,360	
Building and improvements	5,533,110	
	9,385,470	
Less accumulated depreciation	(1,152,720)	
		8,232,750
Other assets		
Deferred financing costs, net of accumulated amortization of \$76,883	375,050	
		375,050
		\$ 10,899,384



**Central SDHC FHA LLC**  
**HUD Project No.: 129-11054**

**Balance Sheet**  
**June 30, 2015**

Liabilities and Member's Equity (Deficit)

Current liabilities		
Accounts payable - operations	\$	91,770
Accrued wages payable		25,422
Accrued interest payable - first mortgage		44,397
Mortgage payable - first mortgage, current maturities		268,112
Prepaid revenue		<u>6,897</u>
Total current liabilities		436,598
Deposits liability		
Tenant deposits held in trust (contra)		129,071
Long-term liabilities		
Mortgage payable - first mortgage, net of current maturities	<u>\$</u>	<u>14,328,254</u>
		<u>14,328,254</u>
Total liabilities		14,893,923
Member's equity (deficit)		<u>(3,994,539)</u>
	<u>\$</u>	<u><u>10,899,384</u></u>

See Notes to Financial Statements.

**Central SDHC FHA LLC**  
**HUD Project No.: 129-11054**

**Statement of Operations**  
**Year Ended June 30, 2015**

Rental revenue		
Rent revenue - gross potential	\$ 1,922,545	
Tenant assistance payments	<u>1,381,355</u>	
Total rental revenue		<u>\$ 3,303,900</u>
Vacancies		
Apartment	(191,559)	
Rental concessions	<u>(12,697)</u>	
Total vacancies		<u>(204,256)</u>
Net rental revenue		3,099,644
Financial revenue		
Financial revenue - project operations	100	
Revenue from investments - replacement reserve	<u>719</u>	
Total financial revenue		819
Other revenue		
Laundry and vending	29,846	
Tenant charges	<u>24,517</u>	
Total other revenue		<u>54,363</u>
Total revenue		<u>3,154,826</u>

**Central SDHC FHA LLC**  
**HUD Project No.: 129-11054**

**Statement of Operations**  
**Year Ended June 30, 2015**

Administrative expenses		
Other renting expenses	7,944	
Office salaries	82,189	
Office expenses	9,708	
Management fee	154,074	
Administrative rent free unit	82,096	
Legal expense - project	26,105	
Auditing expense	11,650	
Bad debts	51,718	
Miscellaneous administrative expenses	<u>17,187</u>	
Total administrative expenses		442,671
Utilities expense		
Electricity	23,368	
Water	143,974	
Gas	30,760	
Sewer	<u>124,969</u>	
Total utilities expense		323,071
Operating and maintenance expenses		
Payroll	147,523	
Supplies	54,632	
Contracts	390,488	
Garbage and trash removal	28,908	
Security payroll/contract	29,551	
Vehicle and maintenance equipment operation and repairs	<u>1,761</u>	
Total operating and maintenance expenses		652,863

**Central SDHC FHA LLC**  
**HUD Project No.: 129-11054**

**Statement of Operations**  
**Year Ended June 30, 2015**

Taxes and insurance		
Real estate taxes	1,169	
Property and liability insurance	23,626	
Workmen's compensation	22,062	
Health insurance and other employee benefits	89,603	
Miscellaneous taxes, licenses, permits and insurance	<u>6,800</u>	
Total taxes and insurance		143,260
Financial expenses		
Interest on first mortgage payable	537,121	
Mortgage insurance premium/service charge	<u>66,086</u>	
Total financial expenses		<u>603,207</u>
Total cost of operations before depreciation and amortization		<u>2,165,072</u>
Income (loss) before depreciation and amortization		<u>989,754</u>
Depreciation and amortization		
Depreciation expense	242,259	
Amortization expense	<u>16,135</u>	
Total depreciation and amortization		<u>258,394</u>
Total expenses		<u>2,423,466</u>
Net income (loss)		<u><u>\$ 731,360</u></u>

See Notes to Financial Statements.

**Central SDHC FHA LLC**  
**HUD Project No.: 129-11054**

**Statement of Member's Equity (Deficit)**  
**Year Ended June 30, 2015**

Member's equity (deficit), June 30, 2014	\$ (4,409,187)
Distributions	(316,712)
Net income (loss)	<u>731,360</u>
Member's equity (deficit), June 30, 2015	<u><u>\$ (3,994,539)</u></u>

**Central SDHC FHA LLC**  
**HUD Project No.: 129-11054**

**Statement of Cash Flows**  
**Year Ended June 30, 2015**

Cash flows from operating activities	
Rental receipts	\$ 2,989,742
Interest receipts	819
Other operating receipts	<u>54,363</u>
Total receipts	<u>3,044,924</u>
Administrative expenses paid	(72,594)
Management fees paid	(154,074)
Utilities paid	(323,071)
Salaries and wages paid	(241,220)
Operating and maintenance paid	(688,469)
Real estate taxes paid	(1,169)
Property insurance paid	(23,626)
Miscellaneous taxes and insurance paid	(6,800)
Net tenant security deposits received (paid)	1,753
Other operating expenses paid	(96,914)
Interest paid on first mortgage	(537,908)
Mortgage insurance premium paid	<u>(65,830)</u>
Total disbursements	<u>(2,209,922)</u>
Net cash provided by operating activities	<u>835,002</u>
Cash flows from investing activities	
Net withdrawals from mortgage escrows	796
Net deposits to reserve for replacements	(70,919)
Entity/construction investing activities (include detail)	
Advance to sole member	<u>\$ (8,457)</u>
	<u>(8,457)</u>
Net cash used in investing activities	<u>(78,580)</u>
Cash flows from financing activities	
Mortgage principal payments - first mortgage	(258,516)
Distributions to member	<u>(316,712)</u>
Net cash used in financing activities	<u>(575,228)</u>
Net increase in cash	181,194
Cash, beginning	<u>655,396</u>
Cash, end	<u><u>\$ 836,590</u></u>

**Central SDHC FHA LLC**  
**HUD Project No.: 129-11054**

**Statement of Cash Flows**  
**Year Ended June 30, 2015**

Reconciliation of net income (loss) to net cash provided by operating activities	
Net income (loss)	<u>\$ 731,360</u>
Adjustments to reconcile net income (loss) to net cash provided by operating activities	
Depreciation	242,259
Amortization	16,135
Changes in asset and liability accounts	
(Increase) decrease in assets	
Tenant accounts receivable	15,396
Accounts receivable - other	5,760
Prepaid expenses	256
Tenant security deposits funded	6,539
Increase (decrease) in liabilities	
Accounts payable	(197,929)
Accrued liabilities	18,043
Accrued interest payable	(787)
Tenant security deposits held in trust	(4,786)
Prepaid revenue	<u>2,756</u>
Total adjustments	<u>103,642</u>
Net cash provided by operating activities	<u><u>\$ 835,002</u></u>

See Notes to Financial Statements.

**Central SDHC FHA LLC**  
**HUD Project No.: 129-11054**

**Notes to Financial Statements**  
**June 30, 2015**

**Note 1 - Organization and nature of operations**

Central 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 Company properties, which consist of 22 apartment complexes totaling 234 units, are located in San Diego, California (the "Projects"). The Company began operation in September 2010. The Projects are currently operating under the name of SDHC Central 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, 2015, the allowance for doubtful accounts is \$11,181.

**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



**Central SDHC FHA LLC**  
**HUD Project No.: 129-11054**

**Notes to Financial Statements**  
**June 30, 2015**

**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, 2015.

**Deferred financing costs**

Deferred financing costs in the amount of \$451,933 are amortized over the term of the loan using the effective yield method. Amortization expense for deferred financing costs for each of the next five years following June 30, 2015 is as follows:

2016	\$	16,224
2017		16,294
2018		16,346
2019		16,375
2020		16,383

**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 income tax purposes and is not subject to income taxes. The Company's federal tax status as a disregarded 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 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.

**Central SDHC FHA LLC**  
**HUD Project No.: 129-11054**

**Notes to Financial Statements**  
**June 30, 2015**

**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 insurance and mortgage insurance premiums. As of June 30, 2015, the balance in the escrow deposits is \$51,399.

**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 \$5,850 are required to be deposited with the mortgage lender. As of June 30, 2015, the balance in the reserve for replacements is \$1,195,716.

**Note 4 - Mortgage payable**

In September 2010, the Company entered into a mortgage agreement with PNC Bank, N.A., a national banking association, in the original amount of \$15,726,100. The note is secured by a deed of trust and insured by HUD. The note bears an annual interest rate of 3.65%. Principal and interest are paid in monthly installments of \$66,369 through maturity on October 1, 2045. As of June 30, 2015, the outstanding principal and accrued interest is \$14,596,366 and \$44,397, respectively.

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.

Aggregate annual maturities of the mortgage payable over each of the next five years and thereafter following June 30, 2015 are as follows:

2016	\$ 268,112
2017	278,063
2018	288,384
2019	299,089
2020	310,189
Thereafter	<u>13,152,529</u>
	<u>\$ 14,596,366</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, 2015, management fees of \$154,074 were incurred and expensed.

**Central SDHC FHA LLC**  
**HUD Project No.: 129-11054**

**Notes to Financial Statements**  
**June 30, 2015**

**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, 2015, the Company received housing assistance payments amounting to \$1,381,355.

**Note 7 - 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, 2015.

**Note 8 - Current vulnerability due to certain concentrations**

The Company's principal assets consist of 234-units within various apartment projects. 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 notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

**Note 9 - Subsequent events**

Management evaluated all activity of the Company through September 30, 2015 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**

**Central SDHC FHA LLC**  
**HUD Project No.: 129-11054**

**Supplementary Information**

**Balance Sheet Data**  
**June 30, 2015**

		<u>Assets</u>	
<u>Account No.</u>			
Current assets			
1120	Cash - operations		\$ 836,590
1130	Tenant accounts receivable	\$ 48,263	
1131	Allowance for doubtful accounts	(11,181)	
1130N	Net tenants accounts receivable		37,082
1135	Accounts receivable - HUD		1,258
1145	Accounts and notes receivable - entity		8,457
1200	Prepaid expenses		31,351
1100T	Total current assets		914,738
Deposits held in trust - funded			
1191	Tenant deposits		129,731
Restricted deposits and funded reserves			
1310	Escrow deposits	51,399	
1320	Reserve for replacements	1,195,716	
1300T	Total deposits		1,247,115
Rental property			
1410	Land	3,852,360	
1420	Buildings	5,533,110	
1400T	Total fixed assets	9,385,470	
1495	Less accumulated depreciation	(1,152,720)	
1400N	Net fixed assets		8,232,750
Other assets			
1520	Deferred financing costs, net of accumulated amortization of \$76,883	375,050	
1500T	Total other assets		375,050
1000T	Total assets		\$ 10,899,384

**Central SDHC FHA LLC**  
**HUD Project No.: 129-11054**

**Supplementary Information**

**Balance Sheet Data**  
**June 30, 2015**

		<u>Liabilities and Member's Equity (Deficit)</u>	
<u>Account No.</u>			
Current liabilities			
2110	Accounts payable - operations	\$	91,770
2120	Accrued wages payable		25,422
2131	Accrued interest payable - first mortgage		44,397
2170	Mortgage payable - first mortgage, current maturities		268,112
2210	Prepaid revenue		6,897
		<hr/>	
2122T	Total current liabilities		436,598
Deposits liability			
2191	Tenant deposits held in trust (contra)		129,071
Long-term liabilities			
2320	Mortgage payable - first mortgage, net of current maturities	\$	14,328,254
2300T	Total long-term liabilities		<hr/> 14,328,254
2000T	Total liabilities		14,893,923
3130	Member's equity (deficit)		<hr/> (3,994,539)
2033T	Total liabilities and member's equity (deficit)	\$	<hr/> <hr/> 10,899,384

**Central SDHC FHA LLC  
HUD Project No.: 129-11054**

**Supplementary Information**

**Statement of Operations Data  
Year Ended June 30, 2015**

Account No.

Rental revenue

5120	Rent revenue - gross potential	\$ 1,922,545	
5121	Tenant assistance payments	<u>1,381,355</u>	
5100T	Total rental revenue		<u>\$ 3,303,900</u>
Vacancies			
5220	Apartments	(191,559)	
5250	Rental concessions	<u>(12,697)</u>	
5200T	Total vacancies		<u>(204,256)</u>
5152N	Net rental revenue		3,099,644
Financial revenue			
5410	Financial revenue - project operations	100	
5440	Revenue from investments - replacement reserve	<u>719</u>	
5400T	Total financial revenue		819
Other revenue			
5910	Laundry and vending	29,846	
5920	Tenant charges	<u>24,517</u>	
5900T	Total other revenue		<u>54,363</u>
5000T	Total revenue		<u>3,154,826</u>

**Central SDHC FHA LLC**  
**HUD Project No.: 129-11054**

**Supplementary Information**

**Statement of Operations Data**  
**Year Ended June 30, 2015**

Account No.

Administrative expenses

6250	Other renting expenses	7,944
6310	Office salaries	82,189
6311	Office expenses	9,708
6320	Management fee	154,074
6331	Administrative rent free unit	82,096
6340	Legal expense - project	26,105
6350	Auditing expense	11,650
6370	Bad debts	51,718
6390	Miscellaneous administrative expenses	<u>17,187</u>

6263T	Total administrative expenses		442,671
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Utilities expense

6450	Electricity	23,368
6451	Water	143,974
6452	Gas	30,760
6453	Sewer	<u>124,969</u>

6400T	Total utilities expense		323,071
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Operating and maintenance expenses

6510	Payroll	147,523
6515	Supplies	54,632
6520	Contracts	390,488
6525	Garbage and trash removal	28,908
6530	Security payroll/contract	29,551
6570	Vehicle and maintenance equipment operation and repairs	<u>1,761</u>

6500T	Total operating and maintenance expenses		652,863
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**Central SDHC FHA LLC**  
**HUD Project No.: 129-11054**

**Supplementary Information**

**Statement of Operations Data**  
**Year Ended June 30, 2015**

Account No.

Taxes and insurance		
6710	Real estate taxes	1,169
6720	Property and liability insurance	23,626
6722	Workmen's compensation	22,062
6723	Health insurance and other employee benefits	89,603
6790	Miscellaneous taxes, licenses, permits and insurance	6,800
		<hr/>
6700T	Total taxes and insurance	143,260
Financial expenses		
6820	Interest on first mortgage payable	537,121
6850	Mortgage insurance premium/service charge	66,086
		<hr/>
6800T	Total financial expenses	603,207
		<hr/>
6000T	Total cost of operations before depreciation and amortization	2,165,072
		<hr/>
5060T	Income (loss) before depreciation and amortization	989,754
		<hr/>
Depreciation and amortization		
6600	Depreciation expense	242,259
6610	Amortization expense	16,135
		<hr/>
	Total depreciation and amortization	258,394
		<hr/>
5060N	Operating income (loss)	731,360
		<hr/>
	Total expenses	2,423,466
		<hr/>
3250	Net income (loss)	\$ 731,360
		<hr/> <hr/>

**Central SDHC FHA LLC**  
**HUD Project No.: 129-11054**

**Supplementary Information**

**Statement of Operations Data**  
**Year Ended June 30, 2015**

Account No.

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.	\$ 258,516
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.	\$ 70,200
S1000-030	Replacement reserve, or residual receipts and releases which are included as expense items on the statement of operations.	\$ -
S1000-040	Project improvement reserve releases under the flexible subsidy program which are included as expense items on the statement of operations.	\$ -
S3100-120	Mortgage payable note detail (Section 236 only) Interest reduction payments from subsidy.	\$ -

**Central SDHC FHA LLC**  
**HUD Project No.: 129-11054**

**Supplementary Information**

**Statement of Member's Equity (Deficit) Data**  
**Year Ended June 30, 2015**

<u>Account No.</u>		
S1100-010	Member's equity (deficit), June 30, 2014	\$ (4,409,187)
S1200-420	Distributions	(316,712)
3250	Net income (loss)	<u>731,360</u>
3130	Member's equity (deficit), June 30, 2015	<u><u>\$ (3,994,539)</u></u>

**Central SDHC FHA LLC**  
**HUD Project No.: 129-11054**

**Supplementary Information**

**Statement of Cash Flows Data**  
**Year Ended June 30, 2015**

<u>Account No.</u>		
	Cash flows from operating activities	
S1200-010	Rental receipts	\$ 2,989,742
S1200-020	Interest receipts	819
S1200-030	Other operating receipts	<u>54,363</u>
S1200-040	Total receipts	<u>3,044,924</u>
S1200-050	Administrative expenses paid	(72,594)
S1200-070	Management fees paid	(154,074)
S1200-090	Utilities paid	(323,071)
S1200-100	Salaries and wages paid	(241,220)
S1200-110	Operating and maintenance paid	(688,469)
S1200-120	Real estate taxes paid	(1,169)
S1200-140	Property insurance paid	(23,626)
S1200-150	Miscellaneous taxes and insurance paid	(6,800)
S1200-160	Net tenant security deposits received (paid)	1,753
S1200-170	Other operating expenses paid	(96,914)
S1200-180	Interest paid on first mortgage	(537,908)
S1200-210	Mortgage insurance premium paid	<u>(65,830)</u>
S1200-230	Total disbursements	<u>(2,209,922)</u>
S1200-240	Net cash provided by operating activities	<u>835,002</u>

**Central SDHC FHA LLC**  
**HUD Project No.: 129-11054**

**Supplementary Information**

**Statement of Cash Flows Data**  
**Year Ended June 30, 2015**

	Cash flows from investing activities		
S1200-245	Net withdrawals from mortgage escrows		796
S1200-250	Net deposits to reserve for replacements		(70,919)
S1200-345	Entity/construction investing activities (include detail)		
S1200-346	Advance to sole member	\$ (8,457)	
			<u>(8,457)</u>
S1200-350	Net cash used in investing activities		<u>(78,580)</u>
	Cash flows from financing activities		
S1200-360	Mortgage principal payments - first mortgage		(258,516)
S1200-420	Distributions		<u>(316,712)</u>
S1200-460	Net cash used in financing activities		<u>(575,228)</u>
S1200-470	Net increase in cash		181,194
S1200-480	Cash, beginning		<u>655,396</u>
S1200T	Cash, end	\$	<u><u>836,590</u></u>

**Central SDHC FHA LLC**  
**HUD Project No.: 129-11054**

**Supplementary Information**

**Statement of Cash Flows Data**  
**Year Ended June 30, 2015**

<u>Account No.</u>		
	Reconciliation of net income (loss) to net cash provided by operating activities	
3250	Net income (loss)	\$ 731,360
	Adjustments to reconcile net income (loss) to net cash provided by operating activities	
6600	Depreciation	242,259
6610	Amortization	16,135
	Changes in asset and liability accounts	
	(Increase) decrease in assets	
S1200-490	Tenant accounts receivable	15,396
S1200-500	Accounts receivable - other	5,760
S1200-520	Prepaid expenses	256
S1200-530	Tenant security deposits funded	6,539
	Increase (decrease) in liabilities	
S1200-540	Accounts payable	(197,929)
S1200-560	Accrued liabilities	18,043
S1200-570	Accrued interest payable	(787)
S1200-580	Tenant security deposits held in trust	(4,786)
S1200-590	Prepaid revenue	2,756
	Total adjustments	103,642
S1200-610	Net cash provided by operating activities	\$ 835,002

Central SDHC FHA LLC  
HUD Project No.: 129-11054

Supplementary Information  
Year Ended June 30, 2015

**Reserve for Replacements**

<u>Account No.</u>		
1320P	Balance at June 30, 2014	\$ 1,124,797
1320DT	Total monthly deposits	70,200
1320INT	Interest income	<u>719</u>
1320	Balance at June 30, 2015	<u><u>\$ 1,195,716</u></u>

**Central SDHC FHA LLC**  
**HUD Project No.: 129-11054**

**Supplementary Information**  
**Period Ended December 31, 2014**

**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)	\$ 698,776
S1400-030	Accounts receivable - HUD	4,947
		<hr/>
S1400-050	Total cash	703,723
		<hr/>
S1400-060	Accrued mortgage interest payable	44,794
S1400-070	Delinquent mortgage principal payments	-
S1400-080	Delinquent deposits to reserve for replacements	-
S1400-090	Accounts payable (due within 30 days)	123,999
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)	2,714
S1400-130	Prepaid revenue (Account 2210)	12,740
S1400-140	Tenant security deposits liability (Account 2191)	133,995
		<hr/>
S1400-180	Less total current obligations	318,242
		<hr/>
S1400-190	Surplus cash (deficiency)	\$ 385,481
		<hr/>



**Central SDHC FHA LLC**  
**HUD Project No.: 129-11054**

**Supplementary Information**  
**Year Ended June 30, 2015**

**Computation of Surplus Cash**

<u>Account No.</u>	<u>Part A - Compute Surplus Cash</u>	
S1300-010	Cash (Accounts 1120, 1170 and 1191)	\$ 966,321
1135	Accounts receivable - HUD	<u>1,258</u>
S1300-040	Total cash	<u>967,579</u>
S1300-050	Accrued mortgage interest payable	44,397
S1300-060	Delinquent mortgage principal payments	-
S1300-070	Delinquent deposits to reserve for replacements	-
S1300-075	Accounts payable (due within 30 days)	91,770
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)	25,422
2210	Prepaid revenue (Account 2210)	6,897
2191	Tenant security deposits liability (Account 2191)	<u>129,071</u>
S1300-140	Less total current obligations	<u>297,557</u>
S1300-150	Surplus cash	<u><u>\$ 670,022</u></u>

**Central SDHC FHA LLC**  
**HUD Project No.: 129-11054**

**Supplementary Information**  
**Year Ended June 30, 2015**

**Changes in Fixed Asset Accounts**

	Assets			Balance 06/30/15
	Balance 06/30/14	Additions	Deletions	
Land	\$ 3,852,360	\$ -	\$ -	\$ 3,852,360
Buildings	5,533,110	-	-	5,533,110
	<u>\$ 9,385,470</u>	<u>\$ -</u>	<u>\$ -</u>	9,385,470
Accumulated depreciation	<u>\$ 910,461</u>	<u>\$ 242,259</u>	<u>\$ -</u>	<u>1,152,720</u>
Total net book value				<u>\$ 8,232,750</u>

**Detail of Accounts - Balance Sheet**

Accounts and Notes Receivable - Entity (Account No. 1145)

Advance to sole member	<u>\$ 8,457</u>
	<u>\$ 8,457</u>

**Other Information**

Related party transactions detail:

Account No.	Entity name	Amount paid
S3100-210	Management fee paid to SDHC	<u>\$ 154,074</u>
		<u>\$ 154,074</u>

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  
Central SDHC FHA LLC

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Central SDHC FHA LLC, which comprise the balance sheet as of June 30, 2015, 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 30, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Central 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 Central SDHC FHA LLC's internal control. Accordingly, we do not express an opinion on the effectiveness of Central 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 Central 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 "CohnReznick LLP". The signature is written in a cursive, flowing style.

Sacramento, California  
September 30, 2015

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  
Central SDHC FHA LLC

Report on Compliance for the Major Program

We have audited Central 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 Central SDHC FHA LLC's major U.S. Department of Housing and Urban Development ("HUD") program for the year ended June 30, 2015. Central SDHC FHA LLC's major HUD program is as follows:

- 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 Central 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 Central 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 Central SDHC FHA LLC's compliance.

*Opinion on the Major HUD Program*

In our opinion, Central SDHC FHA LLC complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major HUD program for the year ended June 30, 2015.

## Report on Internal Control over Compliance

Management of Central 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 Central SDHC FHA LLC's internal control over compliance with the requirements that could have a direct and material effect on the major HUD program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 Central 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 a 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.

The image shows a handwritten signature in black ink. The signature is written in a cursive, flowing style. It appears to read "Cohn Reznick LLP". The letters are connected, and there are some loops and flourishes, particularly in the "C" and the "P".

Sacramento, California  
September 30, 2015

**Central SDHC FHA LLC  
HUD Project No.: 129-11054**

**Schedule of Findings, Questioned Costs and Recommendations  
June 30, 2015**

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

**Central SDHC FHA LLC  
HUD Project No.: 129-11054**

**Schedule of the Status of Prior Audit Findings,  
Questioned Costs and Recommendations  
June 30, 2015**

1. Audit Report, dated September 25, 2014, for the year ended June 30, 2014, issued by CohnReznick LLP.
  - There are no open findings from the prior audit report.
2. There were no reports issued by HUD OIG or other Federal agencies or contract administrators during the period covered by this audit.
3. In July 2014, the HUD Real Estate Assessment Center issued a summary report following the physical inspection of the Projects. The inspection was successful and the Projects received a score of 91b. There were no other letters or reports issued by HUD management during the period covered by this audit.