

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

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

**June 30, 2023**

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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, 2023**

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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Suket Dayal Date  
Executive Vice President of Business Administration  
and Chief Financial Officer  
Telephone Number: (619) 578-7608

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Emily Jacobs Date  
E. Vice President of Real Estate

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

**June 30, 2023**

**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

\_\_\_\_\_  
Emily Jacobs  
E. Vice President of Real Estate

\_\_\_\_\_  
Date

\_\_\_\_\_  
Suket Dayal  
Executive Vice President of  
Business Administration &  
Chief Financial Officer

Managing Agent Taxpayer  
Identification Number: 95-3390896

## Independent Auditor's Report

To the Sole Member  
Northern SDHC FHA LLC

Report on the Audit of the Financial Statements

### *Opinion*

We have audited the financial statements of Northern SDHC FHA LLC, which comprise the balance sheet as of June 30, 2023, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Northern SDHC FHA LLC as of June 30, 2023, 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.

### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Northern SDHC FHA LLC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Northern SDHC FHA LLC's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Northern SDHC FHA LLC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Northern SDHC FHA LLC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The HUD-required financial data templates are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The 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 GAAS. In our opinion, the HUD-required financial data templates are fairly stated in all material respects in relation to the financial statements as a whole.

### *Other Matters*

The Schedule of the Status of Prior Audit Findings, Questioned Costs and Recommendations 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 20, 2023 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 the effectiveness of Northern SDHC FHA LLC's 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 20, 2023

Taxpayer Identification Number:  
22-1478099

Lead Auditor: Ahamadou Alainchar Bocar, CPA

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

**Balance Sheet**  
**June 30, 2023**

Assets

Current assets

Cash - operations	\$ 669,531
Tenant accounts receivable	22,245
Allowance for doubtful accounts	(1,649)
Accounts and notes receivable - operations	244,165
Prepaid expenses	<u>20,448</u>

Total current assets	<u>954,740</u>
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Deposits held in trust - funded

Tenant deposits	<u>116,536</u>
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Restricted deposits and funded reserves

Escrow deposits	54,513
Reserve for replacements	<u>188,041</u>

Total restricted deposits and funded reserves	<u>242,554</u>
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Rental property

Land	3,690,974
Buildings and improvements	11,060,209
Dwelling equipment	<u>55,380</u>

	14,806,563
Less accumulated depreciation	<u>(5,624,529)</u>

Total rental property	<u>9,182,034</u>
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Total assets	<u><u>\$ 10,495,864</u></u>
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**Northern SDHC FHA LLC**  
**HUD Project No.: 129-11053**

**Balance Sheet**  
**June 30, 2023**

Liabilities and Member's Equity (Deficit)

Current liabilities	
Accounts payable - operations	\$ 182,110
Accounts payable - entity	64,672
Accrued wages payable	21,023
Accrued management fee payable	13,574
Accrued interest payable - first mortgage	42,462
Mortgage payable - first mortgage (short-term)	397,105
Prepaid revenue	<u>65,249</u>
Total current liabilities	<u>786,195</u>
Deposits liability	
Tenant deposits held in trust (contra)	<u>115,921</u>
Long-term liabilities	
Mortgage payable - first mortgage, net	<u>12,886,995</u>
Total long-term liabilities	<u>12,886,995</u>
Total liabilities	<u>13,789,111</u>
Member's equity (deficit)	<u>(3,293,247)</u>
Total liabilities and member's equity (deficit)	<u><u>\$ 10,495,864</u></u>

See Notes to Financial Statements.

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

**Statement of Operations**  
**Year Ended June 30, 2023**

Rental revenue	
Rent revenue - gross potential	\$ 2,423,858
Tenant assistance payments	<u>848,289</u>
Total rental revenue	<u>3,272,147</u>
Vacancies	
Apartment	<u>(30,930)</u>
Total vacancies	<u>(30,930)</u>
Net rental revenue	<u>3,241,217</u>
Financial revenue	
Financial revenue - project operations	1,097
Revenue from investments - replacement reserve	<u>96</u>
Total financial revenue	<u>1,193</u>
Other revenue	
Laundry and vending	44,635
Tenant charges	13,250
Miscellaneous revenue	<u>170,420</u>
Total other revenue	<u>228,305</u>
Total revenue	<u>3,470,715</u>

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

**Statement of Operations**  
**Year Ended June 30, 2023**

Administrative expenses	
Other renting expenses	929
Office salaries	115,502
Office expenses	17,463
Management fee	163,685
Administrative rent free unit	25,392
Legal expense - project	20,003
Auditing expense	13,400
Bad debts	42,718
Miscellaneous administrative expenses	<u>2,499</u>
Total administrative expenses	<u>401,591</u>
Utilities expense	
Electricity	48,436
Water	114,761
Gas	42,662
Sewer	<u>76,110</u>
Total utilities expense	<u>281,969</u>
Operating and maintenance expenses	
Payroll	89,143
Supplies	22,871
Contracts	698,457
Garbage and trash removal	41,258
Vehicle and maintenance equipment operation and repairs	<u>2,320</u>
Total operating and maintenance expenses	<u>854,049</u>

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

**Statement of Operations**  
**Year Ended June 30, 2023**

Taxes and insurance	
Real estate taxes	2,292
Property and liability insurance	56,103
Workmen's compensation	9,229
Health insurance and other employee benefits	97,271
Miscellaneous taxes, licenses, permits and insurance	<u>6,800</u>
Total taxes and insurance	<u>171,695</u>
Financial expenses	
Interest on first mortgage payable	533,959
Mortgage insurance premium/service charge	<u>61,913</u>
Total financial expenses	<u>595,872</u>
Total cost of operations before depreciation	<u>2,305,176</u>
Income (loss) before depreciation	<u>1,165,539</u>
Depreciation	
Depreciation expense	<u>450,340</u>
Total depreciation	<u>450,340</u>
Total expenses	<u>2,755,516</u>
Net income (loss)	<u><u>\$ 715,199</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, 2023**

Member's equity (deficit), June 30, 2022	\$ (3,297,365)
Distributions	(931,080)
Contributions	219,999
Net income (loss)	<u>715,199</u>
Member's equity (deficit), June 30, 2023	<u><u>\$ (3,293,247)</u></u>

See Notes to Financial Statements.

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

**Statement of Cash Flows**  
**Year Ended June 30, 2023**

Cash flows from operating activities	
Rental receipts	\$ 3,197,181
Interest receipts	1,193
Other operating receipts	<u>200,571</u>
Total receipts	<u>3,398,945</u>
Administrative expenses paid	(54,294)
Management fees paid	(163,851)
Utilities paid	(281,969)
Salaries and wages paid	(202,112)
Operating and maintenance paid	(968,188)
Real estate taxes paid	(2,292)
Property insurance paid	(56,103)
Miscellaneous taxes and insurance paid	(6,800)
Tenant security deposits received	(1,963)
Other operating expenses paid	(106,500)
Interest paid on first mortgage	(517,376)
Mortgage insurance premium paid	<u>(61,344)</u>
Total disbursements	<u>(2,422,792)</u>
Net cash provided by operating activities	<u>976,153</u>
Cash flows from investing activities	
Net withdrawals from mortgage escrows	1,299
Net withdrawals from reserve for replacements	<u>66,366</u>
Net cash provided by investing activities	<u>67,665</u>
Cash flows from financing activities	
Mortgage principal payments - first mortgage	(382,472)
Distributions to sole member	(931,080)
Contributions by sole member	<u>219,999</u>
Net cash used in financing activities	<u>(1,093,553)</u>
Net decrease in cash and restricted cash	(49,735)
Cash and restricted cash, beginning	<u>835,802</u>
Cash and restricted cash, end	<u><u>\$ 786,067</u></u>

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

**Statement of Cash Flows**  
**Year Ended June 30, 2023**

Reconciliation of net income (loss) to net cash provided by operating activities	
Net income (loss)	\$ 715,199
Adjustments to reconcile net income (loss) to net cash provided by operating activities	
Depreciation	450,340
Amortization of debt issuance costs	17,781
Bad debts	42,718
Changes in asset and liability accounts	
(Increase) decrease in assets	
Tenant accounts receivable	(46,712)
Accounts receivable - other	(122,844)
Prepaid expenses	569
Increase (decrease) in liabilities	
Accounts payable	(92,485)
Accrued liabilities	2,367
Accrued interest payable	(1,198)
Tenant security deposits held in trust	(1,963)
Prepaid revenue	28,024
Entity/construction liability accounts (include detail)	
Accounts payable - entity	(15,643)
Total adjustments	260,954
Net cash provided by operating activities	\$ 976,153

See Notes to Financial Statements.

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

**Notes to Financial Statements**  
**June 30, 2023**

**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 rental housing projects 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, 2023, the allowance for doubtful accounts is \$1,649.

**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:

Buildings and improvements	12 - 37 years
Dwelling equipment	5 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 recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the Projects are less than its carrying amount, management compares the carrying amount of the Projects to its fair value in order to determine whether an impairment loss has occurred. The amount of the



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

**Notes to Financial Statements**  
**June 30, 2023**

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, 2023.

**Debt issuance costs**

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

**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 Projects 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 GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**New accounting pronouncements**

The Company adopted Accounting Standards Update 2016-02 (as amended), Leases ("Topic 842") on July 1, 2022 ("Adoption Date"). Topic 842 requires lessees to recognize a right-of-use asset and a corresponding liability for all leases. Additionally, the Company elected and applied the following practical expedients on the Adoption Date:

- The package of practical expedients permitting the Company to not reassess (i) the lease classification of existing leases; (ii) whether existing and expired contracts are or contain leases; and (iii) initial direct costs for existing leases.
- Application of Topic 842 at the Adoption Date, instead of applying them to the earliest comparative period presented in the financial statements.

The Company accounted for its existing operating leases with residential tenants of the property as operating leases. Adopting Topic 842 in accounting for residential tenant leases did not result in adjustments to the financial statements.

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

**Notes to Financial Statements**  
**June 30, 2023**

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

**Escrow deposits**

Under agreements with the mortgage lender and HUD, the Company is required to make monthly deposits to escrow accounts. Funds deposited are used to pay mortgage insurance premiums. As of June 30, 2023, the balance in the escrow deposits is \$54,513.

**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. During the year ended June 30, 2023, the Company made no deposits to the replacement reserve as the lender and HUD approved a waiver of the deposit requirement as long as the replacement reserve balance exceeds \$1,000 per unit or \$154,000. As of June 30, 2023, the balance in the reserve for replacements is \$188,041.

**Note 4 - Statement of cash flows**

The following table provides a reconciliation of cash and restricted cash reported within the balance sheet that sum to the total of the same such amounts in the statement of cash flows:

Cash	\$ 669,531
Tenant deposits	<u>116,536</u>
Total cash and restricted cash shown in the statement of cash flows	<u>\$ 786,067</u>

Amounts included in restricted cash are comprised of security deposits held in trust for the future benefit of tenants upon moving out of the Projects as required by the regulatory authority.

**Note 5 - 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 mortgage is secured by a deed of trust and insured by HUD. The mortgage 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, 2023, the outstanding principal and accrued interest is \$13,551,646 and \$42,462, respectively.

Debt issuance costs, net of accumulated amortization, totaled \$267,546 as of June 30, 2023, and are related to the first mortgage. Debt issuance costs on the above mortgage are being amortized using an imputed interest rate of 3.97%. Amortization of debt issuance costs is \$17,781 for the year ended June 30, 2023 and is included in interest on first mortgage payable on the statement of operations.

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

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

**Notes to Financial Statements**  
**June 30, 2023**

The mortgage qualifies for an interest rebate subsidy from the U.S. Treasury under the Build America Bonds Program ("BABs"). During the year ended June 30, 2023, the Company received BABs interest rebate of \$170,365, which is included in miscellaneous revenue on the statement of operations.

Aggregate annual maturities of the mortgage payable over each of the next five years and thereafter subsequent to June 30, 2023 are as follows:

2024	\$ 397,105
2025	412,296
2026	428,068
2027	444,444
2028	461,446
Thereafter	<u>11,408,287</u>
Subtotal	13,551,646
Less unamortized debt issuance costs	<u>(267,546)</u>
Total	<u><u>\$ 13,284,100</u></u>

**Note 6 - 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, 2023, management fees of \$163,685 were incurred and charged to operations, of which \$13,574 remain payable as of June 30, 2023.

**Note 7 - 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, 2023, the Company recognized housing assistance payments amounting to \$848,289.

**Note 8 - Related party transactions**

Accounts payable - entity on the balance sheet includes operating expenses of the Company which were paid by SDHC under an expense reimbursement agreement. As of June 30, 2023, \$64,672 is due to SDHC.

**Note 9 - Concentration of credit risk**

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

**Northern SDHC FHA LLC**  
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**Notes to Financial Statements**  
**June 30, 2023**

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, 2023.

**Note 10 - Current vulnerability due to certain concentrations**

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

**Note 11 - Subsequent events**

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date, require disclosure in the accompanying notes. Management evaluated the activity of the Company through September 20, 2023, the date the financial statements were available to be issued, and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the 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, 2023**

		<u>Assets</u>	
<u>Account No.</u>			
Current assets			
1120	Cash - operations		\$ 669,531
1130	Tenant accounts receivable	\$ 22,245	
1131	Allowance for doubtful accounts	(1,649)	
1130N	Net tenants accounts receivable		20,596
1140	Accounts and notes receivable - operations		244,165
1200	Prepaid expenses		20,448
1100T	Total current assets		954,740
Deposits held in trust - funded			
1191	Tenant deposits		116,536
Restricted deposits and funded reserves			
1310	Escrow deposits	54,513	
1320	Reserve for replacements	188,041	
1300T	Total deposits		242,554
Rental property			
1410	Land	3,690,974	
1420	Buildings	11,060,209	
1440	Building equipment - portable	55,380	
1400T	Total fixed assets	14,806,563	
1495	Less accumulated depreciation	(5,624,529)	
1400N	Net fixed assets		9,182,034
1000T	Total assets		\$ 10,495,864

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

**Supplementary Information**

**Balance Sheet Data**  
**June 30, 2023**

<u>Account No.</u>		<u>Liabilities and Members' Equity (Deficit)</u>	
Current liabilities			
2110	Accounts payable - operations	\$	182,110
2113	Accounts payable - entity		64,672
2120	Accrued wages payable		21,023
2123	Accrued management fee payable		13,574
2131	Accrued interest payable - first mortgage		42,462
2170	Mortgage payable - first mortgage (short-term)		397,105
2210	Prepaid revenue		<u>65,249</u>
2122T	Total current liabilities		786,195
Deposits liability			
2191	Tenant deposits held in trust (contra)		115,921
Long-term liabilities			
2320	Mortgage payable - first mortgage	<u>\$ 12,886,995</u>	
2300T	Total long-term liabilities		<u>12,886,995</u>
2000T	Total liabilities		13,789,111
3130	Members' equity (deficit)		<u>(3,293,247)</u>
2033T	Total liabilities and members' equity (deficit)	\$	<u>10,495,864</u>

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

**Supplementary Information**

**Statement of Operations Data**  
**Year Ended June 30, 2023**

<u>Account No.</u>			
Rental revenue			
5120	Rent revenue - gross potential	\$ 2,423,858	
5121	Tenant assistance payments	<u>848,289</u>	
5100T	Total rental revenue		\$ 3,272,147
Vacancies			
5220	Apartments	<u>(30,930)</u>	
5200T	Total vacancies		<u>(30,930)</u>
5152N	Net rental revenue		3,241,217
Financial revenue			
5410	Financial revenue - project operations	1,097	
5440	Revenue from investments - replacement reserve	<u>96</u>	
5400T	Total financial revenue		1,193
Other revenue			
5910	Laundry and vending	44,635	
5920	Tenant charges	13,250	
5990	Miscellaneous revenue	<u>170,420</u>	
5900T	Total other revenue		<u>228,305</u>
5000T	Total revenue		<u>3,470,715</u>



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

**Supplementary Information**

**Statement of Operations Data  
Year Ended June 30, 2023**

<u>Account No.</u>		
Administrative expenses		
6250	Other renting expenses	929
6310	Office salaries	115,502
6311	Office expenses	17,463
6320	Management fee	163,685
6331	Administrative rent free unit	25,392
6340	Legal expense - project	20,003
6350	Auditing expense	13,400
6370	Bad debts	42,718
6390	Miscellaneous administrative expenses	<u>2,499</u>
6263T	Total administrative expenses	401,591
Utilities expense		
6450	Electricity	48,436
6451	Water	114,761
6452	Gas	42,662
6453	Sewer	<u>76,110</u>
6400T	Total utilities expense	281,969
Operating and maintenance expenses		
6510	Payroll	89,143
6515	Supplies	22,871
6520	Contracts	698,457
6525	Garbage and trash removal	41,258
6570	Vehicle and maintenance equipment operation and repairs	<u>2,320</u>
6500T	Total operating and maintenance expenses	854,049

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

**Supplementary Information**

**Statement of Operations Data**  
**Year Ended June 30, 2023**

<u>Account No.</u>			
Taxes and insurance			
6710	Real estate taxes	2,292	
6720	Property and liability insurance	56,103	
6722	Workmen's compensation	9,229	
6723	Health insurance and other employee benefits	97,271	
6790	Miscellaneous taxes, licenses, permits and insurance	<u>6,800</u>	
6700T	Total taxes and insurance		171,695
Financial expenses			
6820	Interest on first mortgage payable	533,959	
6850	Mortgage insurance premium/service charge	<u>61,913</u>	
6800T	Total financial expenses		<u>595,872</u>
6000T	Total cost of operations before depreciation		<u>2,305,176</u>
5060T	Income (loss) before depreciation		<u>1,165,539</u>
Depreciation			
6600	Depreciation expense	<u>450,340</u>	
	Total depreciation		<u>450,340</u>
5060N	Operating income (loss)		<u>715,199</u>
	Total expenses		<u>2,755,516</u>
3250	Net income (loss)		<u><u>\$ 715,199</u></u>

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

**Supplementary Information**

**Statement of Operations Data  
Year Ended June 30, 2023**

<u>Account No.</u>	
S1000-010	Total first mortgage (or bond) principal payments required during the audit year (12 monthly payments). Applies to all direct loans and HUD-held and fully-insured first mortgages.
	<u>\$ 382,472</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>\$ -</u>
S1000-030	Replacement reserve, or residual receipts and releases which are included as expense items on the statement of operations.
	<u>\$ 66,462</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, 2023**

<u>Account No.</u>		<u>Total</u>
S1100-010	Member's equity (deficit), June 30, 2022	\$ (3,297,365)
S1200-420	Distributions	(931,080)
S1200-430	Contributions	219,999
3250	Net income (loss)	<u>715,199</u>
3130	Member's equity (deficit), June 30, 2023	<u><u>\$ (3,293,247)</u></u>

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

**Supplementary Information**

**Statement of Cash Flows Data**  
**Year Ended June 30, 2023**

<u>Account No.</u>		
	Cash flows from operating activities	
S1200-010	Rental receipts	\$ 3,197,181
S1200-020	Interest receipts	1,193
S1200-030	Other operating receipts	<u>200,571</u>
S1200-040	Total receipts	<u>3,398,945</u>
S1200-050	Administrative expenses paid	(54,294)
S1200-070	Management fees paid	(163,851)
S1200-090	Utilities paid	(281,969)
S1200-100	Salaries and wages paid	(202,112)
S1200-110	Operating and maintenance paid	(968,188)
S1200-120	Real estate taxes paid	(2,292)
S1200-140	Property insurance paid	(56,103)
S1200-150	Miscellaneous taxes and insurance paid	(6,800)
S1200-160	Net tenant security deposits received (paid)	(614)
S1200-170	Other operating expenses paid	(106,500)
S1200-180	Interest paid on first mortgage	(517,376)
S1200-210	Mortgage insurance premium paid	<u>(61,344)</u>
S1200-230	Total disbursements	<u>(2,421,443)</u>
S1200-240	Net cash provided by operating activities	<u>977,502</u>
	Cash flows from investing activities	
S1200-245	Net withdrawals from mortgage escrows	1,299
S1200-250	Net withdrawals from reserve for replacements	<u>66,366</u>
S1200-350	Net cash provided by investing activities	<u>67,665</u>
	Cash flows from financing activities	
S1200-360	Mortgage principal payments - first mortgage	(382,472)
S1200-420	Distributions to members	(931,080)
S1200-430	Contributions by members	<u>219,999</u>
S1200-460	Net cash used in financing activities	<u>(1,093,553)</u>
S1200-470	Net decrease in cash	(48,386)
S1200-480	Cash, beginning	<u>717,917</u>
S1200T	Cash, end	<u><u>\$ 669,531</u></u>

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

**Supplementary Information**

**Statement of Cash Flows Data**  
**Year Ended June 30, 2023**

<u>Account No.</u>		
	Reconciliation of net income (loss) to net cash provided by operating activities	
3250	Net income (loss)	\$ 715,199
	Adjustments to reconcile net income (loss) to net cash provided by operating activities	
6600	Depreciation	450,340
S1200-486	Amortization of debt issuance costs	17,781
	Changes in asset and liability accounts	
	(Increase) decrease in assets	
S1200-490	Tenant accounts receivable	(46,712)
S1200-500	Accounts receivable - other	(122,844)
S1200-520	Prepaid expenses	569
S1200-530	Tenant security deposits funded	1,349
	Increase (decrease) in liabilities	
S1200-540	Accounts payable	(92,485)
S1200-560	Accrued liabilities	2,367
S1200-570	Accrued interest payable	(1,198)
S1200-580	Tenant security deposits held in trust	(1,963)
S1200-590	Prepaid revenue	28,024
S1200-605	Entity/construction liability accounts (include detail)	
S1200-606	Accounts payable - entity	\$ (15,643)
		(15,643)
S1200-600	Other adjustments (include detail)	
S1200-601	Bad debts	42,718
		42,718
	Total adjustments	262,303
S1200-610	Net cash provided by operating activities	\$ 977,502

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

**Supplementary Information**  
**Year Ended June 30, 2023**

<u>Account No.</u>			
1320P	Balance at June 30, 2022	\$	254,407
1320INT	Interest income		96
1320WT	Approved withdrawals		<u>(66,462)</u>
1320	Balance at June 30, 2023	\$	<u><u>188,041</u></u>

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

**Supplementary Information**  
**Period Ended December 31, 2022**

**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)	\$ 1,040,604
S1400-030	Accounts receivable - HUD	-
		<hr/>
S1400-050	Total cash	1,040,604
		<hr/>
S1400-060	Accrued mortgage interest payable	43,067
S1400-070	Delinquent mortgage principal payments	-
S1400-080	Delinquent deposits to reserve for replacements	-
S1400-090	Accounts payable (due within 30 days)	30,486
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)	63,546
S1400-140	Tenant security deposits liability (Account 2191)	118,284
		<hr/>
S1400-180	Less total current obligations	255,383
		<hr/>
S1400-190	Surplus cash (deficiency)	\$ 785,221
		<hr/>
S1400-240	Amount available for distribution during next fiscal period	\$ 785,221
		<hr/>



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

**Supplementary Information**  
**Year Ended June 30, 2023**

**Computation of Surplus Cash**

<u>Account No.</u>	<u>Part A - Compute Surplus Cash</u>	
S1300-010	Cash (Accounts 1120, 1170 and 1191)	\$ 786,067
1135	Accounts receivable - HUD	-
		<hr/>
S1300-040	Total cash	786,067
		<hr/>
S1300-050	Accrued mortgage interest payable	42,462
S1300-060	Delinquent mortgage principal payments	-
S1300-070	Delinquent deposits to reserve for replacements	-
S1300-075	Accounts payable (due within 30 days)	182,110
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)	34,597
2210	Prepaid revenue (Account 2210)	65,249
2191	Tenant security deposits liability (Account 2191)	115,921
S1300-110	Other current obligations (describe in detail)	
S1300-120	Accounts payable - entity	<u>\$ 64,672</u>
		<hr/>
		64,672
		<hr/>
S1300-140	Less total current obligations	505,011
		<hr/>
S1300-150	Surplus cash (deficiency)	<u>\$ 281,056</u>
		<hr/>
S1300-200	Amount available for distribution during next fiscal period	<u>\$ 281,056</u>

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

**Supplementary Information**  
**Year Ended June 30, 2023**

**Changes in Fixed Asset Accounts**

	Assets			
	<u>Balance 6/30/22</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/23</u>
Land	\$ 3,690,974	\$ -	\$ -	\$ 3,690,974
Buildings	11,060,209	-	-	11,060,209
Building equipment - portable	55,380	-	-	55,380
	<u>\$ 14,806,563</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,806,563</u>
Accumulated depreciation	<u>\$ 5,174,189</u>	<u>\$ 450,340</u>	<u>\$ -</u>	<u>\$ 5,624,529</u>
Total net book value				<u>\$ 9,182,034</u>

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

**Supplementary Information**  
**Year Ended June 30, 2023**

**Detail of Accounts - Balance Sheet**

Accounts and Notes Receivable - Operations (Account No. 1140)

Other	
Interest rebate - Build America Bonds	\$ 42,144
Insurance proceeds	201,409
Other miscellaneous receivable	<u>612</u>
	<u>\$ 244,165</u>

**Detail of Accounts - Statement of Operations**

Miscellaneous Other Revenue (Account No. 5990)

Miscellaneous income	\$ 55
Interest rebate - Build America Bonds	<u>170,365</u>
	<u>\$ 170,420</u>

**Other Information**

Related party transactions detail:

<u>Account No.</u>	<u>Entity name</u>	<u>Amount paid</u>
S3100-210	Management fee paid to SDHC	<u>\$ 163,851</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, 2023, 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 20, 2023.

Report on 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 as a basis for designing 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Northern SDHC FHA LLC's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northern SDHC FHA LLC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting 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 over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

*CohnReznick LLP*

Sacramento, California  
September 20, 2023

Independent Auditor's Report on Compliance for the Major HUD  
Program and Report 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 HUD Program

*Opinion on the Major HUD 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 Northern SDHC FHA LLC's major U.S. Department of Housing and Urban Development ("HUD") program for the year ended June 30, 2023. Northern SDHC FHA LLC's major HUD program and the related direct and material compliance requirements are as follows:

Name of Major HUD Program	Direct and Material Compliance Requirements
Section 223(f) - Mortgage Insurance Program	Fair housing and nondiscrimination, mortgage loan status, reserve for replacements, distributions to owners, equity skimming, cash receipts, cash disbursements, tenant leasing and eligibility, security deposits, management functions, unauthorized ownership changes, and unauthorized project loans.

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 its major HUD program for the year ended June 30, 2023.

*Basis for Opinion on the Major HUD Program*

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("GAAS"), the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the Guide. Our responsibilities under those standards and the Guide are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Northern SDHC FHA LLC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our audit. We believe that our audit provides a reasonable basis for our opinion on compliance for the major HUD program. Our audit does not provide a legal determination of Northern SDHC FHA LLC's compliance.

*Responsibilities of Management for Compliance*

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, regulations, rules, and provisions of contracts or grant agreements applicable to its HUD programs.

### *Auditor's Responsibilities for the Audit of Compliance*

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and to express an opinion on Northern SDHC FHA LLC's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Guide will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Northern SDHC FHA LLC's compliance with the requirements of the major HUD program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Guide, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Northern SDHC FHA LLC's compliance with the compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances.
- Obtain an understanding of Northern SDHC FHA LLC's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Northern SDHC FHA LLC's internal control. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### *Report on 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 attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance 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 or significant deficiencies may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

*CohnReznick LLP*

Sacramento, California  
September 20, 2023



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

**Schedule of Findings, Questioned Costs and Recommendations  
June 30, 2023**

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, 2023**

1. Audit Report, dated September 20, 2022 for the year ended June 30, 2022, 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. On January 20, 2023, the HUD Real Estate Assessment Center issued a summary report following the physical inspection of the Project. The inspection was completed and the Project received a score of 90c. There were no other letters or reports issued by HUD management during the period covered by this audit.



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