

FINANCIAL STATEMENT AND  
INDEPENDENT AUDITORS' REPORT

**SAN DIEGO HOUSING COMMISSION  
OTAY VILLAS HOUSING  
DEVELOPMENT PROJECT NO. 80-RHC-026**

JUNE 30, 2007

San Diego Housing Commission  
Otay Villas Housing Development Project No. 80-RHC-026

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## INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners  
of the San Diego Housing Commission

RE: Otay Villas Housing Development Project No. 80-RHC-026

We have audited the accompanying statement of project operations of the San Diego Housing Commission's Otay Villas Housing Development Project No. 80-RHC-026 (the Project) for the year ended June 30, 2007. The statement of project operations is the responsibility of the Project's management. Our responsibility is to express an opinion on the statement of project operations 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of project operations was prepared in conformity with the accounting and reporting practices prescribed by the California Department of Housing and Community Development, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the statement of project operations referred to above presents fairly, in all material respects, the results of operations of the San Diego Housing Commission's Otay Villas Housing Development Project No. 80-RHC-026 for the year ended June 30, 2007, on the basis of accounting described in note 1.

Our audit was conducted for the purpose of forming an opinion on the statement of project operations. The accompanying supplemental information required by the California Department of Housing and Community Development on pages 9 through 12 is presented for purposes of additional analysis and is not a required part of the basic financial statement. Such information, except for that portion marked "unaudited," on which we express no opinion has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole.



This report is intended solely for the information and use of the San Diego Housing Commission and the California Department of Housing and Community Development and is not intended to be and should not be used by anyone other than these specified parties.

*Reznick Group, P.C.*

Sacramento, California  
January 15, 2008

San Diego Housing Commission  
Otay Villas Housing Development Project No. 80-RHC-026

STATEMENT OF PROJECT OPERATIONS

Year ended June 30, 2007

Revenue	
Total gross potential rents	\$ 405,380
Less vacancy loss	<u>27,949</u>
Total rental income	377,431
Other income	
Annuity grant income	64,711
Amount due to State	(128,938)
Laundry income	11,609
Interest and NSF and late charges	<u>9,620</u>
Total revenue	<u>334,433</u>
Operating expenses	
Management fee	36,412
Administrative expenses	75,938
Utility expenses	77,922
Operating and maintenance expenses	89,454
Insurance and employee benefits	<u>40,492</u>
Total operating expenses	<u>320,218</u>
Income from operations	<u><u>\$ 14,215</u></u>

See notes to statement of project operations

San Diego Housing Commission  
Otay Villas Housing Development Project No. 80-RHC-026

NOTES TO STATEMENT OF PROJECT OPERATIONS

June 30, 2007

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES

The statement of project operations of San Diego Housing Commission's Otay Villas Housing Development Project No. 80-RHC-026 was prepared in conformity with the accounting and reporting practices prescribed by the California Department of Housing and Community Development. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Specifically, the statement of project operations does not reflect depreciation expense and interest income earned on restricted reserves. The statement of project operations also includes as expense the surplus cash generated during the year that will be paid to RHCP.

Use of Estimates

The preparation of the Statement of Project Operations in conformity with accounting and reporting practices prescribed by the California Department of Housing and Community Development, requires management to make estimates and assumptions. Those estimates and assumptions 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 rentals become due. Rental payments received in advance are deferred until earned. All leases between the Project and the tenants of the Project are operating leases.

Annuity Grant Income

Grant income is recorded as revenue when received from the State of California to fund budget deficits. In the year in which the project generates a positive surplus cash, the project records an expense for the amount of the surplus cash that will be refunded to the State of California.

San Diego Housing Commission  
Otay Villas Housing Development Project No. 80-RHC-026

NOTES TO STATEMENT OF PROJECT OPERATIONS - CONTINUED

June 30, 2007

NOTE 2 - MANAGEMENT FEE

The Project incurs a management fee to the San Diego Housing Commission for central office services which includes, but is not limited to bookkeeping, 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.

SUPPLEMENTAL INFORMATION REQUIRED  
BY THE CALIFORNIA DEPARTMENT OF  
HOUSING AND COMMUNITY DEVELOPMENT



**Rental Housing Construction Program (RHCP) - Original**

**ACTUAL CASH FLOW ANALYSIS**

Reporting Period: 07/01/2006 to 06/30/2007

Contract No: 80-RHC-026  
 Project Name: Otay Villas  
 Prepared by: Christy Huerto  
 Date Prepared: 6/30/2007

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

Unit Months: 936

ACCOUNT NAME	Account Codes	ASSISTED UNITS		NON-ASSISTED UNITS		COMMERCIAL		TOTAL PROJECT		PROJECT VARIANCE
		Approved Cashflow "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	345,276	405,380	0	0	0	0	345,276	405,380	60,104
2 Tenant Assistance Payments	5121	0	0	0	0	0	0	0	0	0
3 Rent revenue - Stores and Commercial	5140	0	0	0	0	0	0	0	0	0
4 Garage and Parking Spaces	5170	0	0	0	0	0	0	0	0	0
5 Flexible Subsidy Revenue	5185	0	0	0	0	0	0	0	0	0
6 Miscellaneous Rent Revenue	5190	0	0	0	0	0	0	0	0	0
7 Excess Rent	5191	0	0	0	0	0	0	0	0	0
8 Rent Revenue/Insurance	5192	0	0	0	0	0	0	0	0	0
9 Special Claims Revenue	5193	0	0	0	0	0	0	0	0	0
10 Retained Excess Income	5194	0	0	0	0	0	0	0	0	0
<b>11 GROSS RENT REVENUE</b>	<b>5100T</b>	<b>345,276</b>	<b>405,380</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>345,276</b>	<b>405,380</b>	<b>60,104</b>
<b>VACANCIES: 5200</b>										
<b>Vacancy Percentage:</b>										
11 Apartments -	5220	0	27,949	0	0	0	0	0	0	0
12 Stores and Commercial	5240	0	0	0	0	0	0	0	0	0
13 Rental Concessions	5250	0	0	0	0	0	0	0	0	0
14 Garage and Parking Spaces	5270	0	0	0	0	0	0	0	0	0
15 Miscellaneous	5290	0	0	0	0	0	0	0	0	0
<b>Total Vacancies (HCD Use Only)</b>	<b>5200T</b>	<b>10,358</b>	<b>27,949</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>10,358</b>	<b>0</b>	<b>0</b>
<b>ASSISTED LIVING/BOARD &amp; CARE REVENUES: 5300</b>										
17 Food	5332	0	0	0	0	0	0	0	0	0
18 Recreation (Activities) and Rehabilitation	5380	0	0	0	0	0	0	0	0	0
19 Rehabilitation	5385	0	0	0	0	0	0	0	0	0
20 Other Service Revenue	5390	0	0	0	0	0	0	0	0	0
<b>Total Living Revenue</b>	<b>6300T</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>FINANCIAL REVENUE: 5400</b>										
21 Financial Revenue - Project Operations	5410	3,799	9,620	0	0	0	0	3,799	9,620	5,821
<b>Total Financial Revenue</b>	<b>5400T</b>	<b>3,799</b>	<b>9,620</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,799</b>	<b>9,620</b>	<b>5,821</b>
<b>OTHER REVENUE: 5900</b>										
22 Laundry and Vending Revenue	5910	8,504	11,609	0	0	0	0	8,504	11,609	3,105
23 NSF and Late Charges	5920	0	0	0	0	0	0	0	0	0
24 Damages and Cleaning Fees	5930	0	0	0	0	0	0	0	0	0
25 Forfeited Tenant Security Deposits	5940	0	0	0	0	0	0	0	0	0
26 Other Revenue	5990	0	0	0	0	0	0	0	0	0
<b>Total Other Revenue</b>	<b>5900T</b>	<b>8,504</b>	<b>11,609</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>8,504</b>	<b>11,609</b>	<b>3,105</b>

**Rental Housing Construction Program (RHCP) - Original**

**ACTUAL CASH FLOW ANALYSIS**

Reporting Period: 07/01/2006 to 06/30/2007

Contract No: 80-RHC-026  
 Project Name: Otay Villas  
 Prepared by: Christy Huerto  
 Date Prepared: 6/30/2007

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

Unit Months: 936

ACCOUNT NAME	Account Codes	ASSISTED UNITS		NON-ASSISTED UNITS		COMMERCIAL		TOTAL PROJECT		PROJECT VARIANCE
		Approved Cashflow "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)
27 EFFECTIVE GROSS RENT (EGR)	5152T	347,221	398,660	0	0	0	0	347,221	426,609	79,388
28 TOTAL OPERATING EXPENSES	6000T	397,717	320,218	0	0	0	0	397,717	320,218	77,499
29 NET OPERATING INCOME (NOI)	5000T	(50,496)	78,442	0	0	0	0	(50,496)	106,391	156,887
<b>FINANCIAL EXPENSES: 6800</b>										
30 Non-Contingent Debt Service (specify lender)	6895									
1st Mortgage =		0	0	0	0	0	0	0	0	0
2nd Mortgage =		0	0	0	0	0	0	0	0	0
3rd Mortgage =		0	0	0	0	0	0	0	0	0
31 HCD Required Payments	6890	0	0	0	0	0	0	0	0	0
32 Lease Payment	6890	0	0	0	0	0	0	0	0	0
33 Miscellaneous Financial Expenses	6890	0	0	0	0	0	0	0	0	0
<b>Total Financial Expenses</b>	<b>6800T</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>FUNDED RESERVES:</b>										
34 Escrow Deposits	1310	14,215	14,215	0	0	0	0	14,215	14,215	0
35 Replacement Reserve-Deposit	1320	0	0	0	0	0	0	0	0	0
36 Operating Reserve-Deposit	1300	0	0	0	0	0	0	0	0	0
37 Other Reserves (specify)										
#1	1330	0	0	0	0	0	0	0	0	0
#2	1330	0	0	0	0	0	0	0	0	0
#3	1330	0	0	0	0	0	0	0	0	0
<b>Total Reserve Deposits</b>		<b>14,215</b>	<b>14,215</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>14,215</b>	<b>14,215</b>	<b>0</b>
38 PROJECT CASH FLOW (CF)		(64,711)	64,227	0	0	0	0	(64,711)	92,176	156,887
<b>ADDITIONAL REVENUE:</b>										
39 RHCP-O Annuity Fund Request (For Assisted Units Only)		64,711	64,711	0	0	0	0	64,711	64,711	0
40 Withdrawal from Operating Reserves		0	0	0	0	0	0	0	0	0
41 Borrower Contribution		0	0	0	0	0	0	0	0	0
42 Other (specify) <i>Amount due to State</i>		0	(128,938)	0	0	0	0	0	(128,938)	(128,938)
<b>Total Additional Revenue</b>		<b>64,711</b>	<b>(64,227)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>64,711</b>	<b>(64,227)</b>	<b>(128,938)</b>
<b>USE OF CASH FLOW:</b>										
43 HCD Interest Payments		0	0	0	0	0	0	0	0	0
44 Asset Mgmt Fee (CHRP-R/SUHRP & HOME-pre-UMR Only)		0	0	0	0	0	0	0	0	0
45 Asset Mgmt Fee/Prtshp Costs (MHP/HOME under UMR)		0	0	0	0	0	0	0	0	0
46 Borrower Distributions		0	0	0	0	0	0	0	0	0
47 Residual Receipt Loan Payments		0	0	0	0	0	0	0	0	0
48 Other (specify)		0	0	0	0	0	0	0	0	0
<b>Total Use of Cash Flow</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**Rental Housing Construction Program (RHCP) - Original**

**REPORT OF ACTUAL OPERATING COSTS**

Reporting Period: 07/01/2006 to 06/30/2007

Contract No: 80-RHC-026  
 Project Name: Otay Villas  
 Prepared by: Christy Huerto  
 Date Prepared: 6/30/07

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

ACCOUNT NAME	ACCOUNT CODES	UNIT EXPENSES						PROJECT TOTALS		
		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	36,412	36,412	0	0	0	0	36,412	36,412	0
<b>ADMINISTRATIVE EXPENSES: 6200/6300</b>										
2 Advertising	6210	61	207	0	0	0	0	61	207	(146)
3 Apartment Resale Expense (Cooperatives)	6235	0	0	0	0	0	0	0	0	0
4 Other Renting Expenses	6250	840	28	0	0	0	0	840	28	812
5 Office Salaries	6310	39,435	43,180	0	0	0	0	39,435	43,180	(3,745)
6 Office Supplies	6311	6,490	11,882	0	0	0	0	6,490	11,882	(5,392)
7 Office or Model Apartment Rent	6312	0	0	0	0	0	0	0	0	0
8 Manager and Superintendent Salaries	6330	5,488	5,488	0	0	0	0	5,488	5,488	0
9 Manager's or Superintendent's Rent Free Unit	6331	0	0	0	0	0	0	0	0	0
10 Legal Expense - Project	6340	533	21	0	0	0	0	533	21	512
11 Audit Expense - Project	6350	1,571	1,571	0	0	0	0	1,571	1,571	0
12 Bookkeeping Fees/Accounting Services	6351	7,513	7,513	0	0	0	0	7,513	7,513	0
13 Telephone and Answering Service Expenses	6360	50	0	0	0	0	0	50	0	50
14 Bad Debt Expense	6370	3,212	(3,148)	0	0	0	0	3,212	(3,148)	6,360
15 Miscellaneous Administrative Expenses (specify)	6390	7,000	9,196	0	0	0	0	7,000	9,196	(2,196)
<b>16 TOTAL ADMINISTRATIVE EXPENSES</b>	<b>6200/6300T</b>	<b>72,193</b>	<b>75,938</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>72,193</b>	<b>75,938</b>	<b>(3,745)</b>
<b>UTILITIES EXPENSES: 6400</b>										
17 Fuel Oil/Coal	6420	0	0	0	0	0	0	0	0	0
18 Electricity	6450	8,260	5,701	0	0	0	0	8,260	5,701	2,559
19 Water	6451	63,195	56,981	0	0	0	0	63,195	56,981	6,214
20 Gas	6452	16,407	15,240	0	0	0	0	16,407	15,240	1,167
21 Sewer	6453	0	0	0	0	0	0	0	0	0
<b>22 TOTAL UTILITIES EXPENSES</b>	<b>6400T</b>	<b>87,862</b>	<b>77,922</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>87,862</b>	<b>77,922</b>	<b>9,940</b>

**Rental Housing Construction Program (RHCP) - Original**

**REPORT OF ACTUAL OPERATING COSTS**

Reporting Period: 07/01/2006 to 06/30/2007

Contract No: 80-RHC-026  
 Project Name: Otay Villas  
 Prepared by: Christy Huerto  
 Date Prepared: 6/30/07

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

ACCOUNT NAME	ACCOUNT CODES	UNIT EXPENSES						PROJECT TOTALS		
		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>OPERATING AND MAINTENANCE EXPENSES: 6500</b>										
23 Janitor and Cleaning Payroll	6510	0	0	0	0	0	0	0	0	0
24 Janitor and Cleaning Supplies	6515	0	0	0	0	0	0	0	0	0
25 Janitor and Cleaning Contracts	6517	11,769	7,107	0	0	0	0	11,769	7,107	4,662
26 Exterminating Payroll/Contract	6519	801	541	0	0	0	0	801	541	260
27 Exterminating Supplies	6520	0	0	0	0	0	0	0	0	0
28 Garbage and Trash Removal	6525	7,040	7,618	0	0	0	0	7,040	7,618	(578)
29 Security Payroll/Contract	6530	1,200	2,157	0	0	0	0	1,200	2,157	(957)
30 Grounds Payroll	6535	0	0	0	0	0	0	0	0	0
31 Grounds Supplies	6536	0	0	0	0	0	0	0	0	0
32 Grounds Contract	6537	9,200	12,592	0	0	0	0	9,200	12,592	(3,392)
33 Repairs Payroll	6540	36,757	33,339	0	0	0	0	36,757	33,339	3,418
34 Repairs Material	6541	10,000	8,168	0	0	0	0	10,000	8,168	1,832
35 Repairs Contract	6542	11,906	5,961	0	0	0	0	11,906	5,961	5,945
36 Elevator Maintenance/Contract	6545	0	0	0	0	0	0	0	0	0
37 Heating/Cooling Repairs and Maintenance	6546	0	0	0	0	0	0	0	0	0
38 Swimming Pool Maintenance/Contract	6547	0	0	0	0	0	0	0	0	0
39 Snow Removal	6548	0	0	0	0	0	0	0	0	0
40 Decorating/Payroll Contract	6560	15,500	9,140	0	0	0	0	15,500	9,140	6,360
41 Decorating Supplies	6561	0	0	0	0	0	0	0	0	0
42 Vehicle and Maint. Equipment Operation/Repairs	6570	3,050	2,797	0	0	0	0	3,050	2,797	253
43 Misc. Operating and Maintenance Expenses (specify)	6590	30,000	34	0	0	0	0	30,000	34	29,966
<b>44 TOTAL OPERATING &amp; MAINTENANCE EXPENSES</b>	<b>6500T</b>	<b>137,223</b>	<b>89,454</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>137,223</b>	<b>89,454</b>	<b>47,769</b>
<b>TAXES AND INSURANCE: 6700</b>										
45 Real Estate Taxes	6710	0	0	0	0	0	0	0	0	0
46 Payroll Taxes (Project's Share)	6711	0	0	0	0	0	0	0	0	0
47 Misc. Taxes, Licenses and Permits	6719	0	0	0	0	0	0	0	0	0
48 Property and Liability Insurance (Hazard)	6720	7,595	9,057	0	0	0	0	7,595	9,057	(1,462)
49 Fidelity Bond Insurance	6721	0	0	0	0	0	0	0	0	0
50 Worker's Compensation	6722	0	6,451	0	0	0	0	0	6,451	(6,451)
51 Health Insurance and Other Employee Benefits	6723	44,848	24,690	0	0	0	0	44,848	24,690	20,158
52 Other Insurance	6729	0	294	0	0	0	0	0	294	(294)
<b>53 TOTAL TAXES AND INSURANCE</b>	<b>6700T</b>	<b>52,443</b>	<b>40,492</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>52,443</b>	<b>40,492</b>	<b>11,951</b>
<b>ASSISTED LIVING/BOARD &amp; CARE EXPENSES; 6900</b>										
54 Food	6932	0	0	0	0	0	0	0	0	0
55 Recreation and Rehabilitation	6980	0	0	0	0	0	0	0	0	0
56 Rehabilitation Salaries	6983	0	0	0	0	0	0	0	0	0
57 Other Service Expenses	6990	0	0	0	0	0	0	0	0	0
<b>58 TOTAL ASSISTED LIVING EXPENSES</b>	<b>6900T</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>61 TOTAL OPERATING COSTS</b>		<b>386,133</b>	<b>320,218</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>386,133</b>	<b>320,218</b>	<b>65,915</b>

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

To the Board of Commissioners  
of the San Diego Housing Commission

We have audited the statement of project operation of the San Diego Housing Commission's Otay Villas Housing Development Project No. 80-RHC-026 (the Project) for the year ended June 30, 2007, and have issued our report thereon dated January 15, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Project's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Project's financial statement is 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.

This report is intended solely for the information and use of the Board of Commissioners, management and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Reznick Group, P.C.*

Sacramento, California  
January 15, 2008