



EXECUTIVE SUMMARY

HOUSING COMMISSION EXECUTIVE SUMMARY SHEET

DATE: November 30 2018

HCR18-093

SUBJECT: Fiscal Year 2018 Comprehensive Annual Financial Report (CAFR) and Single Audit Reports

COUNCIL DISTRICT(S): Citywide

ORIGINATING DEPARTMENT: Financial Services

CONTACT/PHONE NUMBER: Tracey McDermott, 1-619-578-7737

REQUESTED ACTION:

Accept the Fiscal Year 2018 (July 1, 2017 – June 30, 2018) Comprehensive Annual Financial Report (CAFR) and Single Audit Reports, specified in the list of attachments on page 3 of the Board Report, as prepared by CohnReznick LLP, licensed certified public accountants.

EXECUTIVE SUMMARY OF KEY FACTORS:

- SDHC received an “unmodified” (“clean”) opinion for the audit period July 1, 2017 - June 30, 2018.
- SDHC did not receive a Management Comment Letter on internal controls.
- Total Revenues were \$309.3 million, of which 72% is from Federal grants.
- Total Expenses were \$245.5 million, of which \$149.7 million related to Housing Assistance payments.
- Capital improvements, including GPNA efforts were \$35.1 million.
- Total Assets were \$754.0 million, including \$35.8 million and \$110.5 in cash and investments, respectively, which are not necessarily indicative of funds available for discretionary use.
- Total Liabilities were \$123.0 million.
- Total Net Position was \$631.0 million and was comprised of:

Net Investment in Capital Assets: \$107.3 million- the amount spent on capital assets and is used for operations.

Restricted Net Position: \$199.4 million- the amount is restricted by external creditors, grantors contributors, or laws or regulations of other governments.

Unrestricted Net Position: \$324.3 million, which is an accounting definition and not necessarily indicative of funds available for discretionary use.



REPORT

DATE ISSUED: November 21, 2018

REPORT NO: HCR18-093

ATTENTION: Chair and Members of the San Diego Housing Commission
For the Agenda of November 30, 2018

SUBJECT: Fiscal Year 2018 Comprehensive Annual Financial Report (CAFR) and Single
Audit Reports

COUNCIL DISTRICT: Citywide

SUMMARY

Accept the Fiscal Year 2018 (July 1, 2017 – June 30, 2018) 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) 2018 (July 1, 2017 – June 30, 2018) 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, 2018.

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, 2018.



SAN DIEGO
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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 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 Adaptable 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, 2018, 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 2018. 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 1, 2018, Housing Commission staff and the Auditors presented the Fiscal Year 2018 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.



Respectfully submitted,

By: *Roberta Spoon*
Audit Committee

By: *Johanna Hester*
Audit Committee

By: *Margaret Davis*
Audit Committee

- Attachments:
- 1) FY18 Comprehensive Annual Financial Report (CAFR)
 - 2) FY18 Single Audit Reports
 - 3) FY18 Report to the Audit Committee of the Board of Commissioners
 - 4) FY18 Financial Statements on the Otay Villas Housing Development
 - 5) FY18 Financial Statements on the Adaptable Housing Development
 - 6) FY18 Northern SDHC FHA LLC Financial Statements
 - 7) FY18 Southern SDHC FHA LLC Financial Statements
 - 8) FY18 Central SDHC FHA LLC Financial Statements
 - 9) FY18 Hotel Sandford Financial Statements

Hard copies are available for review during business hours at the security information desk in the main lobby and 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 "GovernanceGovernance & Legislative Affairs" section on the San Diego Housing Commission website at www.sdhc.org.



SAN DIEGO
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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, 2018

San Diego Housing Commission
1122 Broadway, Suite 300
San Diego, CA 92101
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, 2018**

**Prepared by:
Financial Services Department**

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SAN DIEGO
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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. SDHC's major program areas include: providing federal rental assistance to more than 15,400 low-income households; addressing homelessness; and creating and preserving affordable rental housing.





November 5, 2018

Mayor Kevin L. Faulconer,
Council President Myrtle Cole,
Members of the San Diego City Council,
San Diego Housing Commission (SDHC) Chairman of the Board Frank Urtasun,
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, 2018.

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 this independent audit was to provide reasonable assurance that SDHC's financial statements for the fiscal year that ended on June 30, 2018, 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, 2018, 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 Single Audit Report, which is issued separately.

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 local 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 has earned a national reputation as a model public housing agency, with innovative programs that preserve and create additional affordable housing in the City of San Diego. SDHC's award-winning programs and services stimulate the local economy, revitalize neighborhoods, and positively 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, 2017. This was the 10th consecutive year that SDHC has achieved this prestigious award, recognizing "transparency and full disclosure" in the CAFR. This report must satisfy both GAAP and applicable legal requirements.

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

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 2017. This was the eighth 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 Statement

To 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 2016-2020

SDHC developed the 2016-2020 Strategic Plan, an agency-wide, four-year Strategic Plan, which the Board approved on September 9, 2016.

This Strategic Plan builds upon the accomplishments of SDHC's 2014-2016 Strategic Plan, and ensures that SDHC operates efficiently; shares its voice through advocacy at the forefront of national, state, and local decision-making; and meets the needs of as many low-income and homeless families as possible.

SDHC's 2016-2020 Strategic Plan identifies three major Goals, which include metrics to monitor progress:

1. Maximize resources through operational efficiencies and technological innovations;
2. Increase the number of housing opportunities that serve low-income and homeless individuals and families in the City of San Diego; and
3. Advocate for more effective affordable housing policies and resources.

SDHC Strategic Plan accomplishments:

1. Maximize resources through operational efficiencies and technological innovations

Wait List Portal – SDHC launched a new Rental Assistance Wait List Portal on August 28, 2017. The portal allows rental assistance applicants to submit new applications or update their information, and to check their wait list status from anywhere they have Internet access. Approximately 80,000 households in the City of San Diego are on the wait list for rental assistance. The average wait to obtain a housing voucher from SDHC is approximately 10 to 12 years.

Employee Development Plan – SDHC implemented a robust Employee Development Plan during Fiscal Year 2018 to ensure business continuity and employee professional growth. The plan was developed with input from employee focus groups, interviews with management, and an employee survey.

SDHC Website Redesign – Throughout Fiscal Year 2018, SDHC developed a redesigned agency website that launched on July 2, 2018. This is the first comprehensive redesign of SDHC's website in close to 10 years. The new website is easier to navigate, more visually appealing, responsive to different mobile devices, and clearly communicates the agency's mission. Among the features of the new website are:

- Accessibility tool to help individuals with disabilities more effectively access the information available online;
- Google Translate for visitors to select the language they would like to use for the website;
- “Let's Get You There” search function to help the public identify the information they want based on general subject areas;
- List of affordable housing developments currently pending construction and contact information;
- Maps, searchable by ZIP Code, that identify affordable rental housing throughout the City of San Diego;
- Links to live streaming audio of SDHC Board meetings and video of Housing Authority of the City of San Diego meetings; and
- “At a Glance” page that provides links to informational snapshots about a few of SDHC's programs.

Green Physical Needs Assessment (GPNA) – In Fiscal Year 2018, SDHC completed \$8.7 million in capital improvements at 90 of the 154 properties that it owns. These renovations were identified through a GPNA previously conducted on a sample of 10-20 percent of the affordable housing units at each of SDHC's rental properties. The renovations included new roofs,

windows, kitchen and bathroom cabinets, exterior paint, plumbing line replacement and site lighting improvements. These renovations benefitted more than 2,100 residents.

2. Increase the number of housing opportunities that serve low-income and homeless individuals and families in the City of San Diego

Creating and Preserving Affordable Housing – As part of its 2016-2020 Strategic Plan, SDHC set an objective to create 2,000 units of mixed-income and affordable housing – approximately 500 units per year.

In FY 2017, 627 affordable units closed financing and are currently under construction or rehabilitation. In FY2018, 618 affordable units closed financing, for a total of 1,245 affordable units. In addition, in collaboration with San Diego City Councilmembers David Alvarez and Scott Sherman, the Vice Chair and former Chair, respectively, of the City Council's Smart Growth and Land Use Committee, SDHC developed the report, "Addressing the Housing Affordability Crisis: San Diego Housing Production Objectives 2018-2028." Presented to the Smart Growth and Land Use Committee on September 21, 2017, this report provides important data that will help the City of San Diego establish realistic and achievable housing goals. The City of San Diego can create enough additional housing to meet its need for 150,000 – 220,000 housing units over the next 10 years if the majority of the proposals in the report are implemented.

HOUSING FIRST – SAN DIEGO

On April 7, 2017, the proposed new programs of HOUSING FIRST – SAN DIEGO, SDHC's homelessness action plan, were presented to the SDHC Board of Commissioners at an informational workshop. These new programs, which launched on July 1, 2017, will create permanent housing opportunities over three fiscal years (2018-2020) for at least 3,000 San Diegans currently experiencing homelessness or at risk of experiencing homelessness. Beginning in Fiscal Year 2018, SDHC will direct \$79.7 million in federal, City of San Diego and SDHC resources over three fiscal years (2018 – 2020) to six programs:

- Landlord Engagement and Assistance Program (LEAP)
- New Permanent Supportive Housing;
- SDHC Moving Home Rapid Rehousing Assistance;
- SDHC Moving On Rental Assistance;
- Homeless Prevention & Diversion; and
- Coordinated Outreach.

In Fiscal Year 2018, HOUSING FIRST – SAN DIEGO: 2018-2020 created more than 2,000 housing opportunities for individuals and families who were at risk of or experiencing homelessness.

The above initiatives build on the accomplishments of the first three years of HOUSING FIRST – SAN DIEGO, which was launched on November 12, 2014, and is on target to impact the lives of close to 3,000 San Diegans experiencing homelessness - Veterans, families and individuals in the City of San Diego - far exceeding its initial goal of 1,500 San Diegans experiencing homelessness. Also in Fiscal Year 2018, SDHC reached the goal of its Housing Our Heroes initiative to provide housing opportunities for 1,000 Veterans experiencing homelessness in the City of San Diego. More than 430 individual landlords participated in the Housing Our Heroes initiative.

3. Advocate for more effective affordable housing policies and resources

SDHC maintains a careful watch on emerging issues or trends that could impact the families and individuals the agency assists through its three major program functions: providing rental assistance; creating and preserving affordable housing; and addressing homelessness.

SDHC's goal is to demonstrate that its partnership developments revitalize neighborhoods and strengthen the community fabric by providing families with safe, affordable places to live.

With more than 45 years of experience in affordable housing across the country, SDHC President & CEO Richard C. Gentry has been invited numerous times to testify before federal, state and local committees about legislation and policy.

For example, on April 25, 2018, Mr. Gentry was among four speakers invited to testify to the U.S. House of Representatives Committee on Financial Services, Subcommittee on Housing and Insurance, at the "Hearing on HUD's Role in Rental Assistance: An Oversight and Review of Legislative Proposals on Rent Reform." SDHC's rent-reform initiative, Path to Success, was approved by HUD on June 21, 2011, in SDHC's Fiscal Year 2012 MTW Annual Plan, and was implemented on July 1, 2013. Mr. Gentry testified that San Diego's experience has shown that rent reform - including setting minimum rents and utilizing calculations based on income ranges - effectively encourages rental assistance participants to become more financially self-reliant and provides the support they need to do so.

Also in Fiscal Year 2018, Mr. Gentry was one of only seven housing authority executives across the country who were invited to participate in

the National Housing Forum convened by the Congressional Hispanic Caucus on September 8, 2017. This forum, which included U.S. House Minority Leader Nancy Pelosi of San Francisco and staff for U.S. Representative Juan Vargas of San Diego, discussed affordable housing needs and the status of the Federal budget for HUD. U.S. Representative Adriano Espaillat of New York, the Chair of the Caucus's Transportation, Infrastructure and Housing Task Force, invited Mr. Gentry to the forum.

In the City of San Diego, on September 21, 2017, SDHC presented its report, "Addressing the Housing Affordability Crisis: San Diego Housing Production Objectives 2018 – 2028" to the San Diego City Council's Smart Growth and Land Use Committee. The report addresses two issues:

- Identifying local bottlenecks during the housing development process, and
- Setting citywide housing production goals.

SDHC developed the report in collaboration with City Councilmembers Scott Sherman and David Alvarez, who at the time were the Chair and Vice Chair, respectively, of the City Council's Smart Growth & Land Use Committee.

The report identified the five main sources of potential additional housing units over the next 10 years, as well as: available land where it is possible to build housing now; allowable land uses that can create options for the development of additional housing; opportunities to improve the development process to make it easier for developers to find the resources they need to create housing; and geospatial analysis of the opportunities to create housing in specific neighborhoods. In addition, the report provided neighborhood-level housing production targets – a first for the City.

Also during Fiscal Year 2018, SDHC worked with City of San Diego Mayor Kevin L. Faulconer to support Assembly Bill 3171, which would have allocated \$1.5 billion of the State of California's budget surplus toward local initiatives to address homelessness. Mayor Faulconer and SDHC President & CEO Gentry co-authored a commentary in support of AB3171 that the San Diego Union-Tribune published on April 20, 2018. The state allocated \$500 million address California's homelessness crisis.

Mr. Gentry also joined San Diego County Supervisor Ron Roberts and San Diego City Councilmember Chris Ward to co-author a commentary in support of California Senate Bills (SB) 2 and 3, which Voice of San Diego published on August 21, 2017. Both bills were signed into law on September 29, 2017. SB 2 creates an ongoing source of funding for the development of affordable housing by establishing a \$75 recording fee on

real estate transactions, excluding home and commercial sales. The maximum total fee would be \$225 per parcel. This would generate about \$250 million per year. SB 3 places a \$4 billion housing bond on the statewide ballot for November 6, 2018.

On October 14, 2017, Governor Edmund G. “Jerry” Brown also signed into law Assembly Bill 1637, on which SDHC worked together with the City of San Diego and Assemblymember Todd Gloria. Known as the “Missing Middle Housing Act,” AB 1637 allows public housing authorities in the City of San Diego and the County of Santa Clara to make loans to developers of mixed-income developments if:

- 40 percent of the units are affordable to low-income households (up to 80 percent of Area Median Income); and
- At least 10 percent of the units are affordable to middle-income households (up to 150 percent of Area Median Income)

SDHC Business Activities

Providing Rental Assistance

SDHC administers a variety of federally funded affordable housing programs and services, including the Section 8 Housing Choice Voucher Program, which provides rental assistance to more than 15,400 low-income families in the City of San Diego.

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

‘Moving to Work’ Agency

SDHC is one of only 39 public housing authorities nationwide, out of 3,400, to receive the Moving to Work (MTW) designation from HUD.

MTW status provides flexibility and allows SDHC to determine the most effective housing assistance programs for low-income and homeless residents who live in the City of San Diego.

Committing Federal Rental Housing Vouchers to Address Homelessness

SDHC's MTW status has allowed SDHC to leverage its available resources to address homelessness. To date, SDHC has committed more than 4,000 rental housing vouchers to address homelessness..

In Fiscal Year 2018, SDHC committed 323 federal Project-Based Housing Vouchers, 31 HUD Veterans Affairs Supportive Housing (VASH) Project-Based

Vouchers, 75 HUD VASH vouchers, 120 Sponsor-Based Housing Vouchers, and 50 local Non-traditional Housing Vouchers:

- 91 Project-Based Housing Vouchers to Quality Inn, an existing property acquired by SDHC's nonprofit affiliate, Housing Development Partners (HDP). Twenty-five vouchers are designated as Project One For All (POFA), a partnership with the County of San Diego. These POFA vouchers are reserved for homeless San Diegans with severe mental illness who receive county services. In addition to the POFA population, Quality Inn will house homeless seniors, homeless veterans, and homeless Transitional Age Youth (ages 18-25). Quality Inn is estimated to start leasing in August 2018. The units will remain affordable for 55 years.
- 46 Project-Based Housing Vouchers to West Park Inn, an existing property acquired by HDP. Twenty-three vouchers are designated as POFA. In addition to the POFA population, West Park Inn will house homeless seniors. West Park Inn is estimated to start leasing in September 2018. The units will remain affordable for 55 years.
- 50 Project-Based Housing Vouchers to San Ysidro Senior Village, a new affordable housing development by National CORE for homeless seniors. Twelve of the units are designated as POFA. The estimated completion date is December 2020. The units will remain affordable for 55 years.
- 72 Project-Based Housing Vouchers to The Link, a new development of studio apartments by Affirmed Housing Group. The Link will house homeless adults. It is estimated to be completed in July 2020. The units will remain affordable for 55 years.
- 64 federal Project-Based Housing Vouchers to Jamboree – San Ysidro Project, a new development featuring various sized units for homeless adults and their families. SDHC committed vouchers for 52 one-bedroom unit, 9 two-bedroom units, and 3 three-bedroom units. Jamboree San Ysidro is estimated to be completed in December 2020. It will remain affordable for 55 years.
- 8 HUD-VASH Project-Based Vouchers to The Stella (formerly Fairmount Family Housing). The new development by Affirmed Housing Group will have eight units dedicated to homeless Veterans and their families. Construction is estimated to be completed in August 2019.
- 8 HUDVASH Project-Based Vouchers to Encanto Village. The new development by National CORE will have eight units dedicated to housing homeless Veterans and their families. Construction is estimated to be complete in April 2019.
- 8 HUD-VASH Project Based Vouchers to Ulric Street Apartments. The new development by Community HousingWorks will have eight units dedicated to housing homeless Veterans and their families. Construction is estimated to be completed by February 2020.
- 7 HUD-VASH Project Based Vouchers to Keeler Court Apartments. The new Development by Community HousingWorks will have seven units

dedicated to housing homeless Veterans and their families. Construction is estimated to be complete by July 2020.

- 100 Sponsor Based Housing Vouchers to the City Star Act Program. All 100 rental assistance subsidies are designated as POFA and are for homeless, disabled adults with severe mental illness who live in central and north San Diego. The program is administered by Mental Health Systems. The program is currently leasing.
- 20 Sponsor Based Housing Vouchers to Pathways Community Services for clients in their Catalyst program. All 20 rental assistance subsidies are POFA and serve Transitional Age Youth (ages 18-25) with severe mental illness. The program is expected to start leasing in September 2018.
- 50 MTW vouchers to Moving On, one of SDHC's MTW initiatives and a program of HOUSING FIRST – SAN DIEGO, SDHC's homelessness action plan. This program serves formerly homeless individuals who no longer need intensive supportive services, but still require a housing subsidy. Service providers give 3-6 months of transition support to Moving On clients. The program currently has 25 vouchers awarded and will increase to up to 50 by Fiscal Year 2020.

SDHC also was awarded an additional 75 tenant-based VASH vouchers in FY 2018.

At the close of FY 2018, SDHC had committed a total of 2,970 rental assistance subsidies for homeless families and individuals. Additionally, 1,075 VASH vouchers are allocated to serve homeless Veterans.

Additional MTW Programs

SDHC's MTW operating budget in Fiscal Year 2018 was \$161,670,593. Examples of MTW initiatives that SDHC has implemented are the expansion of Choice Communities and its corresponding payment standards; Path to Success; the HOUSING FIRST – SAN DIEGO programs Guardian Scholars, Monarch School Project, Moving Home Rapid Rehousing and Moving On Rental Assistance; and the SDHC Achievement Academy.

Choice Communities – The San Diego Housing Commission's (SDHC) Choice Communities initiative, developed under SDHC's federal designation as a [Moving to Work](#) public housing agency, provides families that receive rental assistance with more flexibility to choose to live in neighborhoods that offer more opportunities for transportation, schools, and employment.

To increase housing opportunities through this initiative and to assist as many low-income families as possible, SDHC updated the payment standards that are used to determine the amount of rental assistance each family receives.

SDHC divided City of San Diego ZIP Codes into three groups, each with its own payment standards:

- Choice Communities
- Enterprise Communities
- Signature Communities

The payment standard is the maximum subsidy payment that the Section 8 Housing Choice Voucher would pay for an apartment or rental house, minus the applicable tenant rent portion. Families pay a predetermined amount of the rent, and SDHC pays the remainder of the rent, up to the applicable payment standard, directly to the landlord.

SDHC Achievement Academy

The SDHC Achievement Academy is a learning and resource center and computer lab located at SDHC's downtown San Diego headquarters. Its programs emphasize career development, job skills and personal financial education. The SDHC Achievement Academy is available at no charge to families receiving Federal Section 8 Housing Choice Voucher rental assistance and public housing residents.

In Fiscal Year 2018, nearly 1,900 SDHC Achievement Academy participants attended 263 workshops addressing various topics, such as financial education, life skills, workforce readiness, computer literacy and job recruitments. In addition to attending workshops, 1,343 participants received core services, including benefits screening and meeting with a certified financial counselor; 326 participants were placed in jobs; and 377 increased their earnings. In Fiscal Year 2018, the average hourly wage earned by SDHC Achievement Academy participants was \$13.19. 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 needs of its participants.

In addition, the SDHC Achievement Academy is an essential partner in HUD's selection of San Diego as an EnVision Center. On June 7, 2018, HUD announced the selection of a collaboration between SDHC, the City of San Diego and San Diego Workforce Partnership as one of only 18 EnVision Centers in 17 communities across the country. The EnVision Centers will promote financial self-reliance among federal rental assistance recipients and public housing residents. EnVision Centers will offer services in four areas: Economic Empowerment; Educational Advancement; Health and Wellness; and Character and Leadership Development.

The SDHC Achievement Academy also received an Award of Merit from the National Association of Housing and Redevelopment Officials (NAHRO) at the organization's summer conference. The Award of Merit is for the agency's Power

of One program, a yearlong program that provides single-parent households with access to career and financial planning resources and workshops.

Finally, during October 2017, the SDHC Achievement Academy received a 2017 Impact Award and \$2,500 grant from Social Solutions Global. The Impact Award, announced at the Social Solutions annual summit, was awarded for the use of Efforts to Outcomes technology for tracking the positive impact in the lives of City Heights' families participating in the 2Gen San Diego program. 2Gen San Diego, funded by the W.K. Kellogg Foundation, is a multigenerational program providing services to adults, as well as their children 0-8 years of age, in the effort to break the cycle of poverty.

Path to Success – This SDHC program modified the method used to determine the monthly rent payment amounts for families that receive rental assistance from SDHC and public housing residents. The new rent methodology was designed to motivate families to increase earnings. Path to Success also set minimum monthly rent payment amounts for rental assistance and public housing participants who are identified as 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. Minimum rents were implemented in two phases. The initial minimum monthly rent payment amounts were based on California's minimum wage standards - \$8 per 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 or more Work-Able adults. SDHC guides Work-Able families to become more financially self-reliant through enrollment at the SDHC Achievement Academy. Work-Able families pay either the minimum monthly rent payment amount or the rent payment amount based on the family's annual income, whichever is greater. Adjusted annual income is separated into income ranges. The lower edge of the range is used to calculate the family's rent payment. This allows Work-Able families to increase their income without being penalized.

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.

In addition, efficiencies achieved through Path to Success have enabled SDHC to reinvest \$24.2 million in MTW funds to support the creation or preservation of 271 affordable rental housing units. SDHC has also invested \$12 million in MTW

funds toward the rehabilitation of 721 SDHC-owned affordable rental housing units.

Addressing Homelessness

In addition to its homelessness action plan, HOUSING FIRST – SAN DIEGO, SDHC administers programs that address homelessness in the City of San Diego. These programs serve single adults, families, youth, Veterans and seniors.

The homeless population in the San Diego region, as measured by the annual Point-in-Time Count conducted on January 26, 2018, decreased by 6 percent from 2017. The Point-in-Time Count identified 8,576 individuals experiencing homelessness (sheltered and unsheltered) in the County of San Diego, including 4,912 in the City of San Diego, which was a 13 percent decrease from 2017.

SDHC administers the City's Homeless Shelters and Services Programs based on a Memorandum of Understanding between the City and SDHC that took effect on July 1, 2010 and was amended and restated as approved by the SDHC Board on May 9, 2014, and the City Council on June 17, 2014. The MOU was further amended as approved by the SDHC Board on April 10, 2015, and the City Council on April 28, 2015. The City's homelessness programs include:

- Day Center Facility for Homeless Adults;
- Homeless Transitional Storage Center;
- Three interim housing programs (Connections Housing Downtown, the City-sponsored one-stop housing and services center for San Diegans experiencing homelessness; Cortez Hill Family Center, which provides short-term housing and services to help families experiencing homelessness stabilize their lives; and the City's Year-Round Permanent Interim Housing Program); and
- A rapid re-housing program.

The City and SDHC entered into a separate MOU for the administration of three Temporary Bridge Shelters, which was approved by the SDHC Board on November 3, 2017, and by the City Council on November 14, 2017. The three bridge shelters support a total of 674 beds for single individuals, families with children and Veterans experiencing homelessness.

On April 3, 2018, the City Council approved an amendment to the MOU to include administration of an agreement for the operation of the Storage Connect Center, a facility in the City's Sherman Heights neighborhood that provides 500 storage bins for persons experiencing homelessness. This storage facility is in addition to the lockers and storage bins that serve more than 400 persons experiencing homelessness at the City's Homeless Transitional Storage Center in Downtown San Diego.

In Fiscal Year 2018, SDHC also supported more than 260 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 Rehousing services.

Also, an MOU and operating agreement for the City's proposed Housing Navigation Center will be considered by the San Diego City Council on September 18, 2018. If approved, SDHC will administer the Housing Navigation Center, which will provide core services to address housing crises and on-site intake, assessment, triage, and referrals for permanent and longer-term housing opportunities to individuals, families, and youth experiencing homelessness in the City,

Creating Affordable Housing

As of June 30, 2018, SDHC owns 154 properties with 2,006 affordable housing rental apartments, including 189 Federal public housing apartments SDHC operates in the City of San Diego. During FY 2018, one property, Town & County Apartments (145 apartments) was transferred to SDHC's nonprofit affiliate, Housing Development Partners (HDP), for a comprehensive rehabilitation utilizing the Low-Income Housing Tax Credit program.

In addition, HDP, has developed 1,537 affordable rental housing units in the City at properties it has acquired and created through partnership developments, which includes 366 units on SDHC-owned land that is ground leased to HDP:: Parker-Kier Apartments (33 affordable units and one manager's unit), Hotel Churchill (72 affordable units and one manager's unit), Village North Senior (119 affordable units and one manager's unit), Quality Inn (91 affordable units and one manager's unit) and West Park Inn (46 affordable units and one manager's unit).

SDHC also is a developer of new affordable housing. The agency's hallmark has been its ability to foster affordable housing projects by forging partnerships with the City of San Diego's development agencies as well as nonprofit and for-profit developers.

SDHC completed several affordable housing partnership developments in Fiscal Year 2018 throughout the City of San Diego:

- Mesa Verde, Navajo Community, 89 affordable housing units for low-income families;
- North Park Seniors, North Park Community, 75 affordable housing units for low-income seniors, including 8 units of permanent supportive housing;
- Talmadge Gateway, Kensington-Talmadge Community, 59 permanent supportive housing units for seniors experiencing homelessness; and
- Cypress Apartments, Downtown San Diego, 62 permanent supportive housing units for San Diegans experiencing chronic homelessness.

Management's Discussion & Analysis

In addition to the 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
Senior Vice President and Chief Financial Officer



Government Finance Officers Association

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Presented to

**San Diego Housing Commission
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

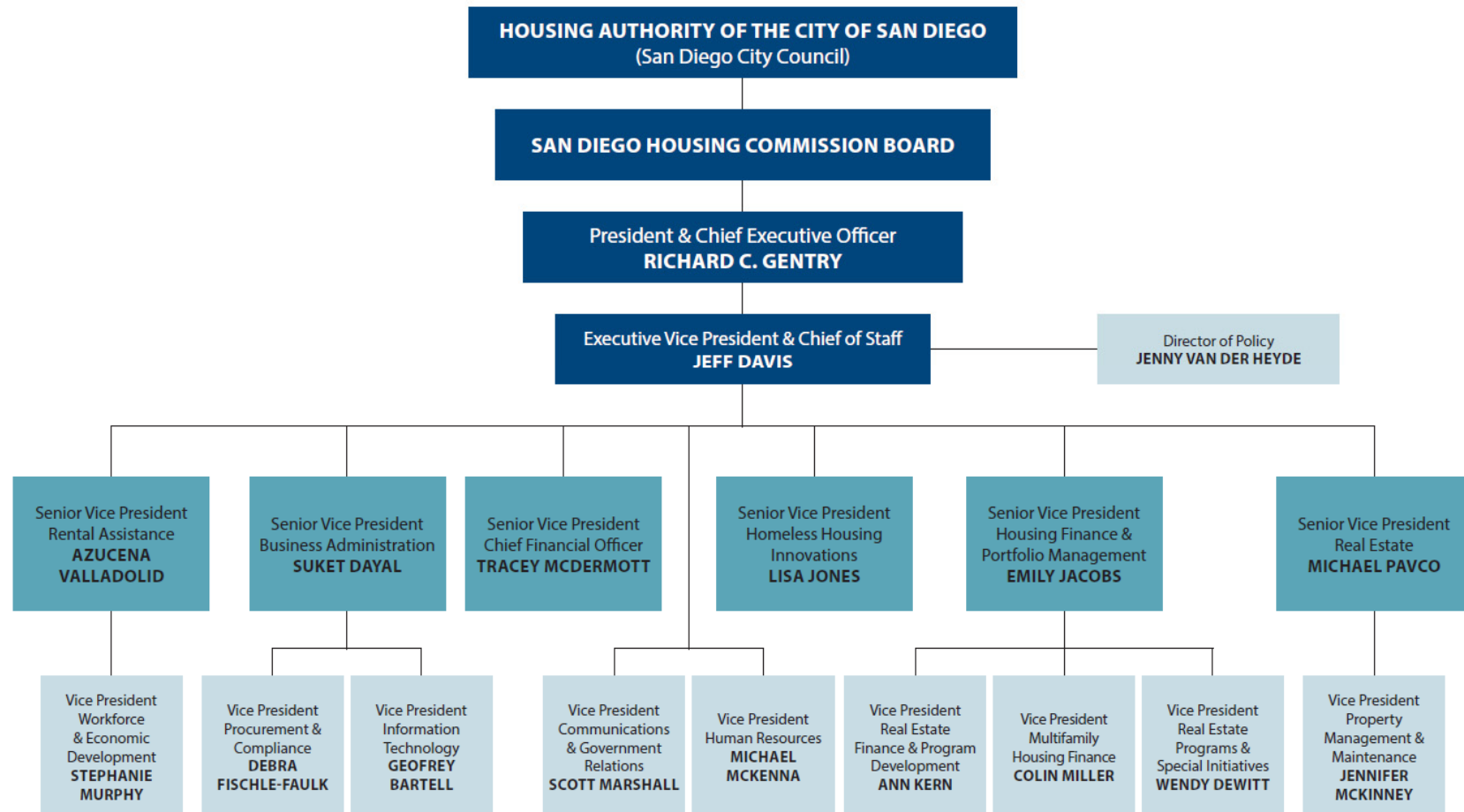
June 30, 2017

Christopher P. Morill

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 4	Myrtle Cole
Council President Pro Tem - District 1	Barbara Bry
Councilmember - District 2	Lorie Zapf
Councilmember - District 3	Chris Ward
Councilmember - District 5	Mark Kersey
Councilmember - District 6	Chris Cate
Councilmember - District 7	Scott Sherman
Councilmember - District 8	David Alvarez
Councilmember - District 9	Georgette Gomez

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	Frank Urtasun
Vice Chair	Stefanie Benvenuto
Commissioner	Ryan Clumpner
Commissioner	Margaret Davis
Commissioner	Johanna Puno Hester
Commissioner	Kellee Hubbard
Commissioner	Tim Walsh



SAN DIEGO
HOUSING
COMMISSION

Financial Section



We're About People

For the 10th consecutive year, the SDHC Financial Services Department was recognized by the Government Finance Officers Association (GFOA) with the "Certificate of Achievement for excellence in Financial Reporting" for the fiscal year 2017 (July 1, 2016 - June 30, 2017) Annual Financial Report. SDHC also received the Award for Outstanding Achievement in Popular Annual Financial Reporting from GFOA for the eighth year in a row.

In addition, Standard & Poor's (S&P) Global Ratings affirmed SDHC's "AA" credit rating for the fifth consecutive time. The factors cited for the rating included SDHC's strong ability to leverage resources and to develop partnerships in its efforts to revitalize its communities as well as its strong overall strategy and management.



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, 2018, and the related notes to the financial statements, which collectively comprise SDHC's basic financial statements as listed in the table of contents.

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 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 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. 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. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*. 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 the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, 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, 2018, 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 28 to 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 basic 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 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 by us and the other auditor. In our opinion, based on our audit, the procedures performed as described above, 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 5, 2018 on our consideration of SDHC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 SDHC'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 SDHC's internal control over financial reporting and compliance.



Sacramento, California
November 5, 2018



San Diego Housing Commission

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

Management's Discussion and Analysis is a supplement to the accompanying year-end financial statements and presents an analysis of SDHC's financial performance for the fiscal year ended June 30, 2018. This analysis 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 assets of SDHC exceeded its liabilities by \$631.0 million (net position). Of this amount, \$324.3 million (unrestricted net position) is available to meet ongoing and recurring obligations, \$199.4 million is restricted for specific purposes (restricted net position) and \$107.3 million is net investment in capital assets.
- Total net position of SDHC increased \$63.9 million. The change in net position is comprised of \$246.3 million of nonoperating income and expenses (net), principally revenue earned through the Moving to Work (MTW) program and other Federal programs (Community Development Block Grant and HOME), \$44.1 million related to dwelling (tenant rental) income, land lease rental income and other fee revenue and \$13.7 million in gain on sale of property to a component unit, offset by operating expenses of \$233.0 million primarily related to housing assistance payments and administrative expenses and depreciation expense of \$7.2 million.
- Capital asset additions, net of transfers and retirements, of \$12.4 million, related to the purchase of the Quality Inn and West Park Inn properties (139 units) for \$15.5 million, the completion of building improvements of \$14.0 million related to Green Physical Needs Assessment rehabilitation and other projects, \$.4 million in office furniture and equipment, offset by the disposition of Town & Country property (145 units), with a book value of \$10.3 million to an affiliate and depreciation of \$7.2 million.
- Notes and mortgages receivable (principal), net of allowance, increased \$47.9 million, primarily related to the \$13.3 million seller carryback note related to the sale of the Town & Country property and additional multi-family loans of approximately \$36.1 million (net of repayments) for affordable housing (such as Atmosphere, San Ysidro Paseo La Paz and HDP New Palace), offset by a decrease of \$2.0 million in non-major loans comprised of homeownership, single-family rehabilitation and multi-family loans under \$500,000 each.



Overview of the Financial Statements

SDHC provides a variety of affordable housing and supportive services to individuals within the City of San Diego. The financial statements include the Independent Auditor's Report, Management's Discussion and Analysis (MD&A), basic financial statements, accompanying notes and 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, 2018, 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, 2018. 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, 2018. 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 (Primary Government) (Condensed)

The following analysis summarizes SDHC's net position (Table 1) as of June 30, 2018 and 2017 and changes in net position (Table 2) during the fiscal years then ended.

Table 1
Net Position
(Dollars in Thousands)

	June 30, 2018	June 30, 2017	Change \$	Change %
<u>Assets</u>				
Current assets	\$ 97,377	\$ 89,247	\$ 8,130	9%
Noncurrent assets	444,801	403,246	41,555	10%
Capital assets net of depreciation	211,805	199,370	12,435	6%
Total assets	\$ 753,983	\$ 691,863	\$ 62,120	9%
<u>Liabilities</u>				
Current liabilities	\$ 21,215	\$ 24,072	\$ (2,857)	-12%
Notes payable and non-current liabilities	101,786	100,704	1,082	1%
Total liabilities	123,001	124,776	(1,775)	-1%
<u>Net Position</u>				
Net investment in capital assets	107,299	95,954	11,345	12%
Restricted	199,382	182,546	16,836	9%
Unrestricted	324,301	288,587	35,714	12%
Total net position	630,982	567,087	63,895	11%
Total liabilities and net position	\$ 753,983	\$ 691,863	\$ 62,120	9%

SDHC's net position increased from \$567.1 million to \$631.0 million due to a \$63.9 million surplus generated during fiscal year 2018. The fiscal year 2018 surplus is \$15.4 million more than the fiscal year 2017 surplus of \$48.5 million, primarily due to an increase of \$23.1 million in non-operating revenue from grant income, an increase of \$2.7 million in operating revenue (\$1.7 million principally comprised of housing assistance payments revenue and salary reimbursement revenue and \$1.0 million of dwelling rental income) and an increase of \$1.8 million in interest income on investments and notes receivable, offset by a net increase of \$12.2 million in operating expenses (principally property maintenance, housing assistance payments and administrative expenses) over the gain related to the sale of the Town & Country property.



Total assets increased \$62.1 million from \$691.9 million in fiscal year 2017 to \$754.0 million in fiscal year 2018. The increase in total assets is primarily due to an increase of \$52.3 million in current and long-term notes and mortgages receivable (net), plus associated accrued interest, an increase of \$12.4 million in capital asset additions (net), an increase of \$9.0 million in cash and an increase of \$7.1 million related to accounts receivable and prepaid assets, offset by a decrease of \$18.7 million in current and long-term investments. The increase in total assets is primarily due to additional inclusionary fees received which were used to fund multi-family affordable housing loans.

Total liabilities decreased \$1.8 million from \$124.8 million in fiscal year 2017 to \$123 million in fiscal year 2018. The decrease in total liabilities is principally due to a decrease of \$4.1 million in unearned revenue and \$0.7 million of deposits, offset by an increase of \$1.5 million in accounts payable primarily related to construction-in-progress, an increase of \$1.2 million in current and long-term notes payable and an increase of \$0.3 million in accrued personnel costs.

Restricted net position increased \$16.9 million from \$182.5 million in fiscal year 2017 to \$199.4 million in fiscal year 2018, primarily due to an additional \$11.6 million in reserves for HOME notes receivable and related accrued interest, \$5.2 million in CDBG notes receivable reserve and an increase of \$0.1 million related to replacement and operating reserves required by debt obligations. Additional information can be found in Note 14 to the Basic Financial Statements.

Unrestricted net position increased \$35.7 million from \$288.6 million in fiscal year 2017 to \$324.3 million in fiscal year 2018. 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
(Dollars in Thousands)

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Change \$</u>	<u>Change %</u>
Operating revenues				
Dwelling rental income	\$ 31,061	\$ 30,080	\$ 981	3%
Land lease and other rental income	2,601	2,493	108	4%
Fee revenue	4,214	4,512	(298)	-7%
Other revenue	6,277	4,408	1,869	42%
Total operating revenues	44,153	41,493	2,660	6%
Operating expenses	233,042	208,448	24,594	12%
Deficit before depreciation and other nonoperating income and expenses	(188,889)	(166,955)	(21,934)	13%
Depreciation	7,215	5,765	1,450	25%
Deficit before other non- operating income and expenses	(196,104)	(172,720)	(23,384)	14%
Other nonoperating income and expense, net	246,318	221,242	25,076	11%
Change in net position before capital transactions	50,214	48,522	1,692	3%
Gain on sale of property to component unit	13,681	-	13,681	100%
Change in net position	63,895	48,522	15,373	32%
Net position beginning of year	567,087	518,565	48,522	9%
Net position end of year	<u>\$ 630,982</u>	<u>\$ 567,087</u>	<u>\$ 63,895</u>	<u>11%</u>

Operating revenues increased \$2.7 million from \$41.5 million in fiscal year 2017 to \$44.2 million in fiscal year 2018. This increase is due to housing assistance payments revenue and salary reimbursements revenue and increased dwelling rental income, as total tenant revenue increased.

Operating expenses increased \$24.6 million from \$208.4 million in fiscal year 2017 to \$233.0 million in fiscal year 2018. This increase is primarily due to an increase in grant expense of \$8.7 million (principally due to the temporary bridge shelter costs), property maintenance of \$6.1 million, housing assistance payments of \$5.1 million, administrative expenses of \$2.5 million (primarily related to personnel costs), general expenses of \$1.6 million (bad debt, insurance and expensed equipment) and \$0.6 million of tenant services (mainly relocation).



Other nonoperating income and expenses (net) increased \$25.1 million from \$221.2 million in fiscal year 2017 to \$246.3 million in fiscal year 2018 primarily due to an increase in grant revenue primarily related to Moving to Work (MTW), CDBG and HOME grants.

The following summarizes SDHC's capital assets, net of accumulated depreciation, and changes therein (Table 3) for the years ended June 30, 2018 and June 30, 2017:

TABLE 3
Net Capital Assets
(Dollars in Thousands)

	June 30, 2018	June 30, 2017	Change \$	Change %
Land and buildings	\$ 210,089	\$ 195,896	\$ 14,193	7%
Construction-in-progress	878	2,772	(1,894)	-68%
Equipment	838	702	136	19%
Total	<u>\$ 211,805</u>	<u>\$ 199,370</u>	<u>\$ 12,435</u>	<u>6%</u>

Capital Assets

Capital asset additions, net of transfers and retirements, of \$12.4 million, related to the purchase of the Quality Inn and West Park Inn properties (139 units) for \$15.5 million, the completion of building improvements of \$14.0 million related to Green Physical Needs Assessment rehabilitation and other projects, \$.4 million in office furniture and equipment, offset by the disposition of Town & Country property (145 units), with a book value of \$10.3 million to an affiliate and depreciation of \$7.2 million.

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

Current and Long-Term Debt

Notes payable (including current and noncurrent) totaled \$104.9 million at June 30, 2018. Of this balance, \$84.2 million are FHA and Fannie Mae loans, which 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, serviced by Key Bank Real Estate, comprised \$5.2 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.

Two loans payable to the City of San Diego, originally to the Redevelopment Agency of the City of San Diego, comprised another \$6.8 million of the notes payable balance. The first of these loans, with a balance on June 30, 2018 of \$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 is non-interest bearing.



Two loans from the State of California, originally made to finance the acquisition of the Otay Villas Apartments and Adaptable Housing properties, constitute \$4.6 million of the notes payable 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.

During fiscal year 2018, the Courtyard Apartments were leveraged and the \$4.2 million loan is serviced by Red Capital Mortgage, LLC and has a fixed interest rate of 4.92% and a term of 12 years.

Further detail related to debt obligations and payments can be found in Note 9 to the Basic Financial Statements.

Financial Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement 61, SDHC's LLCs and the financial reporting entity of consolidated Housing Development Partners, and in accordance with GASB Statement 80, SDHC Building Opportunities, are incorporated into the accompanying financial statements. The LLCs and SDHC Building Opportunities are separate legal entities that are blended component units with the primary government, SDHC, due to their fiscal dependency and financial benefit/burden relationship. Further information on the LLCs and SDHC Building Opportunities can be found in Note 18 to the Basic Financial Statements. The financial reporting entity of consolidated Housing Development Partners consists of 19 separate legal entities, which have substantively the same governing body as SDHC; however, the entities are not financially dependent on SDHC and these entities have their own operational policies, and, therefore, are presented as discrete component units. The financial reporting entity of consolidated Housing Development Partners has been audited by Leaf & Cole LLP. Note 19 to the Basic Financial Statements includes the December 31, 2017 consolidated Housing Development Partners 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 2018, SDHC received 72% 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' 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 2018 and will have a balanced budget in fiscal year 2019.



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 2018 MTW Plan on June 27, 2017. HUD's fiscal year runs from October to September. HUD approved the 2019 MTW Plan on August 16, 2018. The plans can be viewed at [http://www.sdhc.org/Rental - Assistance/MovingForward - MTW/](http://www.sdhc.org/Rental-Assistance/MovingForward-MTW/)

San Diego county's unemployment rate declined 0.9% compared to a year ago (3.5% versus 4.4%), whereas the nation's unemployment rate declined only 0.5% compared to a year ago (4.1% versus 4.6%)¹. According to the San Diego Regional EDC, San Diego is known as being one of the nation's leading high-tech hubs wherein its innovation economy (encompassing life sciences, cleantech, software industries and the like) continues to foster jobs creation. There has also been an increase in the working-aged population in San Diego which should further facilitate jobs recovery in 2019².

While San Diego's unemployment rate remains below the nation's average and its average weekly wages was \$112 more than the nation's, costs related to all items, energy and housing remain higher than the nation's¹. The price paid by San Diegans for all items and energy was 3.6% and 14.9%, respectively, whereas the price paid by the nation, for all items and energy was 2.9% and 12.1%, respectively¹. The median home value in San Diego is \$623,000 (6.5% increase from last year), the median home sales price is \$699,000 and the median rent price is \$2,750³. The median home value for the United States is \$218,000, the median home sales price is \$278,900 and the median rent price is \$1,695⁴.

The high cost of living and affordability of homes continues to be a challenge in San Diego, with San Diego's homeownership percentage declining to 52.6% (at calendar Q1 2018), from 57.9% (at calendar Q1 2017) and it is not anticipated that homeownership rates will rise over the next year due to the continued rise of home prices and rising mortgage rates⁵. Because of the decline in homeownership and the demand shift from suburban living to city dwelling, there is an increase demand for rental housing. With only 6,400 construction starts for multi-family housing as of December 2017, rental housing inventory remains low and rents continue to rise⁶. According to RENTCafe, San Diego was the 5th largest city to have the most significant year-over-year rent change in August 2018.

Because of the continued need for affordable housing and the high rate of homelessness in the city (8,576 per the Regional Task Force on the Homeless' 2018 count), SDHC remains committed to creating and preserving affordable housing and as such on September 4, 2018, announced that up to \$50 million (administered by SDHC) is now available to help fund the construction of new affordable rental housing, including units for San Diegans experiencing homelessness, or to rehabilitate and preserve

¹ Bureau of Labor and Statistics, August 29, 2018 Update

² ft Journal Staff, San Diego County Employment Chart Update 06/08/18, ft Journal

³ <https://www.zillow.com/san-diego-ca/home-values>, July 31, 2018

⁴ <https://www.zillow.com/home-values>, July 31, 2018

⁵ ft Journal Staff, San Diego County Home Prices Continue to Rise Chart Update 06/08/18, ft Journal

⁶ ft Journal Staff, San Diego County Homeownership Chart Update 06/08/18, ft Journal



existing affordable housing in the City of San Diego. The \$50 million is comprised of three Notices of Funding Availability:

- Up to \$20 million to create affordable rental housing with supportive services for San Diegans experiencing homelessness. These funds are part of the current phase of HOUSING FIRST – SAN DIEGO. This NOFA also includes 525 federal rental housing vouchers committed by SDHC to provide rental assistance for San Diegans experiencing homelessness.
- Up to \$20 million to create affordable rental housing for low-income San Diegans; and
- Up to \$10 million to rehabilitate affordable rental housing units and/or extend their affordability.

In addition, through the execution of SDHC's 2019 budget of \$388 million, SDHC plans to:

- Assist approximately 15,400 low-income households by providing rental assistance through the Federal HCV program;
- Assist 39 households to become first-time homebuyers;
- Acquire and develop 195 affordable housing units; including units for homeless;
- Renovate and rehabilitate 391 SDHC-owned units;
- Own and/or manage 3,732 affordable housing units in the city of San Diego, including SDHC's nonprofit affiliate, Housing Development Partners (HDP) and Federal public housing units;
- Administer City of San Diego homeless programs, inclusive of housing navigation center, that will provide onsite intake, three temporary bridge shelters, that provide shelter for more than 3,900 homeless individuals, an expandable transitional storage facility with up to 500 lockable storage containers, and day services for 3,600 homeless individuals;
- Help 1,500 families that receive Federal rental assistance or public housing residents to work toward financial self-reliance through the SDHC Achievement Academy.

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, Senior Vice President and Chief Financial Officer, San Diego Housing Commission, 1122 Broadway, Suite 300, San Diego, California 92101.



SAN DIEGO
HOUSING
COMMISSION

Basic Financial Statements



We're About People

SDHC launched the Landlord Engagement and Assistance Program (LEAP), which provides incentives to qualifying landlords who rent to families and individuals experiencing homelessness. LEAP is part of HOUSING FIRST – SAN DIEGO, SDHC's homelessness action plan.

LEAP is an expansion of the landlord incentives program of the Housing Our Heroes initiative, which helped 1,000 homeless Veterans, like James (pictured above on the right) secure permanent rental housing. More than 430 landlords, including Noble Robinson (pictured above on the left) participated in Housing Our Heroes. Through LEAP, incentives are available to landlords who rent to Veterans and non-Veterans who are experiencing homelessness.





San Diego Housing Commission
STATEMENT OF NET POSITION
June 30, 2018
(Dollars in Thousands)

	Primary Government	Component Units
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 31,992	\$ 10,310
Restricted cash and cash equivalents	3,824	569
Short-term investments	39,229	-
Accounts receivable - tenants, net	269	74
Accounts receivable - funding sources	14,940	112
Accounts receivable - other	2,872	150
Notes and mortgages receivable, current portion	1,174	-
Accrued interest receivable - investments	194	-
Prepaid items and other assets	2,883	9,382
Total current assets	97,377	20,597
Noncurrent assets		
Restricted cash and cash equivalents	-	3,082
Long-term investments	71,308	-
Accrued interest receivable - notes and mortgages receivable	45,255	-
Notes and mortgages receivable, net of allowance for loan losses	328,089	-
Investment in partnerships	-	51
Other assets	149	3,741
Capital assets not being depreciated	70,959	8,542
Capital assets, net of accumulated depreciation	140,846	61,062
Total noncurrent assets	656,606	76,478
Total assets	\$ 753,983	\$ 97,075

Continued



San Diego Housing Commission
STATEMENT OF NET POSITION - CONTINUED
June 30, 2018
(Dollars in Thousands)

	Primary Government	Component Units
<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ 9,748	\$ 2,403
Accounts payable - funding sources	448	3
Accrued payroll and benefits	1,388	36
Accrued compensated absences	2,352	-
Accrued interest payable	424	159
Notes payable, current portion	2,696	493
Deposits payable	1,777	333
Unearned revenue	2,364	42
Other current liabilities	18	-
Total current liabilities	21,215	3,469
Noncurrent liabilities		
Accrued interest payable - noncurrent	782	3,002
Notes payable noncurrent, net	100,673	81,065
Other liabilities	331	11,358
Total noncurrent liabilities	101,786	95,425
Total liabilities	\$ 123,001	\$ 98,894
<u>Net Position</u>		
Net investment in capital assets	\$ 107,299	\$ -
Restricted		
HOME notes receivable reserve	181,021	-
NSP notes receivable reserve	7,068	-
CDBG notes receivable reserve	5,228	-
Replacement reserves	3,735	-
VASH and FUP housing assistance reserves	2,330	-
Non-controlling interest - tax credit partnerships	-	14,245
Total restricted	199,382	14,245
Unrestricted	324,301	(16,064)
Total net position	\$ 630,982	\$ (1,819)
Total liabilities and net position	\$ 753,983	\$ 97,075

See notes to financial statements



San Diego Housing Commission
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year ended June 30, 2018
(Dollars in Thousands)

	Primary Government	Component Units
Operating revenues		
Dwelling rental income	\$ 31,061	\$ 6,734
Land lease and other rental income	2,601	139
Fee revenue	4,214	-
Other revenue	6,277	285
Total operating revenues	<u>44,153</u>	<u>7,158</u>
Operating expenses		
Administrative expenses	37,026	2,387
Tenant services	2,544	164
Asset management	20,288	2,354
General expenses	3,060	271
Grant expense	20,433	-
Housing assistance	149,691	-
Depreciation	7,215	3,158
Total operating expenses	<u>240,257</u>	<u>8,334</u>
Operating loss	<u>(196,104)</u>	<u>(1,176)</u>
Nonoperating revenues (expenses)		
Grant revenue	240,542	418
Interest income on investments and notes receivable	10,969	12
Interest expense	(5,196)	(1,877)
Gain on sale of capital asset	3	-
Total nonoperating revenues (expenses)	<u>246,318</u>	<u>(1,447)</u>
Change in net position before capital transactions	50,214	(2,623)
Contributions, net of distributions	-	3,487
Gain on sale of property to component unit	13,681	-
Acquisition cost over carryover basis	-	(13,873)
Change in net position	63,895	(13,009)
Net position		
Beginning of year	<u>567,087</u>	<u>11,190</u>
End of year	<u>\$ 630,982</u>	<u>\$ (1,819)</u>

See notes to financial statements



San Diego Housing Commission
STATEMENT OF CASH FLOWS
For the Year ended June 30, 2018
(Dollars in Thousands)

	Primary Government
Cash flows from operating activities	
Cash received from tenants and other revenue	\$ 43,346
Cash payments to suppliers for operations	(199,795)
Cash payments for general and administrative expenses	(38,346)
Net cash used for operating activities	(194,795)
Cash flows from capital and related financing activities	
Principal paid on notes payable	(3,080)
Acquisition and construction of capital assets	(29,950)
Proceeds from sales of capital assets	10,733
Proceeds from additional borrowings	4,169
Interest expense paid	(5,013)
Net cash used for capital and related financing activities	(23,141)
Cash flows from noncapital financing activities	
Cash received from grants	234,915
Net cash provided by noncapital financing activities	234,915
Cash flows from investing activities	
Interest on investments and notes receivable	6,581
Collection of notes receivable	9,660
Cash loaned on notes receivable	(42,948)
Purchases of investments	(33,428)
Proceeds from sale of investments	52,155
Net cash used in investing activities	(7,980)
Net increase in cash and cash equivalents	8,999
Cash and cash equivalents	
Beginning of year	26,817
End of year	\$ 35,816
Financial statement presentation	
Cash and cash equivalents	\$ 31,992
Restricted cash and cash equivalents	3,824
Total cash and cash equivalents	\$ 35,816

Continued



San Diego Housing Commission
STATEMENT OF CASH FLOWS
For the Year ended June 30, 2018
(Dollars in Thousands)

	<u>Primary Government</u>
Reconciliation of operating loss to net cash used for operating activities	
Operating loss	\$ (196,104)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	7,215
Amortization	134
Allowance for accounts receivable	12
Provision for loan losses	421
Allowance for forgivable loans	14
Changes in operating assets and liabilities:	
Increase in tenant receivables	(19)
Decrease in other receivables	1,368
Increase in prepaid items and other assets	(1,503)
Decrease in accounts payable	(1,680)
Increase in accrued payroll and benefits	269
Decrease in deposits payable	(713)
Decrease in unearned revenues	(4,050)
Decrease in other liabilities	(159)
Net cash used for operating activities	<u><u>\$ (194,795)</u></u>

Supplemental Disclosure of Cash Flow Information:

Noncash Investing Activities:

Increase in notes receivable included in gain on sale of asset to an affiliate	<u><u>\$ 13,250</u></u>
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See notes to financial statements



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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 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 considered an integral part (component unit) of the City and the accounts of SDHC have been included within the scope of the basic financial statements of the City.

SDHC's priority is to serve low and moderate income persons by providing rental assistance payments, rental housing, loans and grants to families, individuals and not-for-profit organizations to create and preserve affordable housing. SDHC is also committed to special programs aimed at breaking the cycle of poverty by providing opportunities for individuals to become more financially self-reliant through various programs such as Choice Communities to move closer to work, Achievement Academy to emphasize job skills, personal financial education and career planning and Veterans supportive housing to assist veterans in rebuilding their lives.

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.



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

Blended Component Units

SDHC's blended component units reflect LLCs and a 501(c)(3) California Nonprofit Public Benefit Corporation.

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

While these blended component units are legally separate entities, they are, in substance, part of SDHC's operations as the LLCs and SDHC share the same management team which has operational responsibility over the LLCs, the LLCs and SDHC have the same Board of Commissioners and SDHC is financially responsible for the LLCs. Because of the LLCs' direct financial benefit/burden relationship with SDHC and in accordance with Governmental Accounting Standards Board (GASB) Statement 61, the LLCs are component units whose financial information are blended (combined) within the financial information of the primary government.

SDHC Building Opportunities, Inc. (Building Opportunities) is a recently created California Nonprofit Public Benefit Corporation whose specific purpose is to improve the quality of life of low and moderate income residents of the City of San Diego and County of San Diego. Building Opportunities has received Internal Revenue Code Section 501(c)(3) status by the Internal Revenue Service, which has classified it as a public charity. Building Opportunities has no members and any action would only require approval of its Board of Directors (Board). Its Board is comprised of three persons appointed by the President and Chief Executive Officer of SDHC. The three appointed Board members are employees of SDHC, as are its officers. Building Opportunities did not have significant activities during the year ended June 30, 2018 and pursuant to GASB Statement 80, it has been included in the financial statements as a blended component unit of SDHC. See Note 18 for further information on Building Opportunities.



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

Discretely Presented Component Units

SDHC's discretely presented component units reflect the financial reporting entity of consolidated Housing Development Partners, which includes the following legal entities: Housing Development Partners of San Diego (HDP), HDP Mason Housing Corporation (HDP Mason), Casa Colina, LP (Casa Colina), Logan Development II, LP (Logan II), HDP Broadway, LP (HDP Broadway), HDP Churchill, LP (HDP Churchill), HDP Parkier Kier, LLC (HDP Parker Kier), HDP New Palace, LP (HDP New Palace), Logan Development Management, LLC, HDP Broadway Management, LLC, HDP Churchill, LLC, HDP Island Village, LLC, HDP New Palace Management, LLC, HDP Village North Senior, LLC, HDP West Park, LP (HDP West Park) HDP West Park Inn, LLC, HDP Quality Inn, LLC, HDP Town and Country, LP and HDP Town and Country, LLC, collectively referred to as the "Corporation".

The Corporation is comprised of nonprofit organizations, limited partnerships and limited liability companies, each of which is a separate legal entity from SDHC. The Corporation also shares staff and Board of Directors with SDHC and the Corporation's by-laws state that two of the Corporation's board members are also SDHC board members and a third Corporation board member is the Chief Executive Officer of SDHC. Due to the shared governance between the Corporation and SDHC, SDHC can exercise considerable influence over the Corporation.

While the Corporation has substantially the same governing body as SDHC, the Corporation is managed differently than SDHC and operationally the Corporation has its own procurement practices, its own legal counsel and its own separate accounting system in place. In addition, SDHC is not legally entitled to the Corporation's resources, nor is SDHC legally obligated to financially support the Corporation. As there is no financial benefit or burden relationship between the Corporation and SDHC, nor is SDHC expected to repay any of the Corporation's outstanding debts or leases, in accordance with GASB Statement 61, the Corporation is discretely presented, wherein these entities are reported as a separate column in the basic financial statements. In addition, the Corporation has been audited by Leaf & Cole LLP and reports on a calendar year basis. See Note 19 for additional information about the discretely presented component units. The financial statements for the Corporation can be obtained upon request at <https://hdppartners.org/contact-us/>.



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

Note 2 - Summary of Significant Accounting Policies (Dollars in Thousands)

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, with the exception of the LLC's and the discretely presented component units which follow FASB standards and present their unamortized debt issuance costs, in accordance with Accounting Standards Update (ASU) No. 2015 - 03, Interest-Imputation of Interest (Subtopic 835 - 30): Simplifying the Presentation of Debt Issuance Costs, wherein the unamortized debt issuance costs are presented as a direct deduction from the carrying amount of the related debt liability. See Note 9 for additional information on Notes Payable.

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



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

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 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, 2018, SDHC has implemented the following new accounting standards issued by the GASB:

Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits and Other Than Pensions". GASB Statement No. 75 replaces the requirements of GASB No. 45 and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. In addition, it requires more extensive note disclosures and required supplementary information about the OPEB liabilities. The adoption of this Statement has no effect on SDHC's financial statements for fiscal year ending June 30, 2018.

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 adoption of this Statement has no effect on SDHC's financial statements for fiscal year ending June 30, 2018.



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

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 adoption of this Statement had no impact on SDHC's financial statements for fiscal year ending June 30, 2018.

Statement No. 85, "Omnibus 2017". GASB Statement No. 85 addresses a variety of topics including, among other things, the blending of component units, goodwill reporting, timing of measurement and reporting of pension or OPEB obligations. The adoption of this Statement had no impact on SDHC's financial statements for fiscal year ending June 30, 2018.

Statement No. 86, "Certain Debt Extinguishment Issues". GASB Statement No. 86's primary objective is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources other than the proceeds of refunding debt are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The adoption of this Statement had no impact on SDHC's financial statements for fiscal year ending June 30, 2018.

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

Statement No. 83, "Certain Asset Retirement Obligations". GASB Statement No. 83 establishes guidance for determining the timing and pattern of recognition for liabilities and corresponding deferred outflow of resources



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

related to such obligations. The requirements of this Statement are effective for SDHC's fiscal year ending June 30, 2019.

Statement No. 84, "Fiduciary Activities". GASB Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments and clarifies whether and how business-type activities should report their fiduciary activities. The requirements of this Statement are effective for SDHC's fiscal year ending June 30, 2019.

Statement No. 87, "Leases". GASB Statement No. 87 requires that government lessees recognize a lease liability and an intangible assets representing the lessee's right to use the leased asset and report in its financial statements amortization expense for using the lease asset for the shorter of the lease term or the useful life of the underlying asset, interest expense on the lease liability and note disclosures about the lease. The Statement also requires government lessors recognize a lease receivable and a deferred inflow of resources and continue to report the leased asset in its financial statements and report in its financial statements lease revenue, recognized over the term of the lease, corresponding with the reduction of the deferred inflow, interest income on the receivable and note disclosures about the lease. The requirements of this Statement are effective for SDHC's fiscal year ending June 30, 2021.

Statement No. 88, "Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements". GASB Statement No. 88 for disclosure purposes specifically defines debt as a liability that arises from a contractual obligation to pay cash (or other asset in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. Additional debt disclosures in the notes to the financial statements include unused lines of credit; assets pledged as collateral for the debt; and terms specified in the debt agreements related to significant events of default with finance related-consequences, significant termination events with finance-related consequences and significant subjective acceleration clauses. In addition, direct borrowings and direct placement disclosure information should be disclosed separately from other debt disclosures. The requirements of this Statement are effective for SDHC's fiscal year ending June 30, 2019.

Statement No. 89, "Accounting for Interest Cost Incurred before the End of a Construction Period". GASB Statement 89 provides accounting requirements for interest cost incurred before the end of a construction period. It establishes guidance designed to enhance the relevance and comparability of



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

information about capital assets and the cost of borrowing for a reporting period. It also simplifies accounting for interest cost incurred before the end of a construction period. For financial statements prepared using the economic resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expense in the period in which the cost is incurred. Such interest cost should not be capitalized as part of the historical cost of a capital asset. For financial statements prepared using the current financial resources measurement focus, interest incurred before the end of a construction period should continue to be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for SDHC's fiscal year ending June 30, 2021.

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.



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

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. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession agreement (if applicable) are reported at acquisition value rather than fair value. Net interest costs are capitalized on projects during the construction period. The capitalization threshold for all capital assets is five thousand dollars.

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, 2018, 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



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

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 retirement. The liability for compensated absences was \$2,352 at June 30, 2018.

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.



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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, 2018.

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 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, 2018.

Net Position

In the Statement of Net Position, net position is 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.



San Diego Housing Commission

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June 30, 2018

Note 3 - Cash, Cash Equivalents and Investments (Dollars in Thousands)

Cash, cash equivalents and investments at June 30, 2018 consist of the following:

Deposits and petty cash	\$	31,992
Local Agency Investment Funds		11,179
San Diego County Investment Pool		20,999
Certificates of Deposit		4,408
Agency Bonds		73,926
Other		25
Total investments		<u>110,537</u>
Restricted cash and cash equivalents		<u>3,824</u>
Total	\$	<u><u>146,353</u></u>

Cash, Cash Equivalents and Investments are not indicative of funds available for discretionary use as they have been earmarked for loans and grants that the Commission has already committed to fund through Board approval or have federal/state/local programmatic requirements that are designated for HAP payments, property maintenance, etc., or operating reserves as required by the City of San Diego for future contingencies. (See Note 14 Net Position for further information.)

Deposits

The fair value of SDHC's cash deposits and petty cash are \$31,992 at June 30, 2018. Bank balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250 and for amounts over \$250 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



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June 30, 2018

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.

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, 2018, was approximately \$89,000,000. 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 193 days as of June 30, 2018.

As of June 30, 2018, SDHC had \$11,179 invested in LAIF. At that date, LAIF fair value factor of .998126869 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 Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

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, 2018 was \$20,999 and had a weighted average yield to maturity of 1.94%, a weighted average days to maturity of 345 days and an effective duration of .83 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 (36.29%), public schools (43.95%), community colleges (10.59%) and non-County funds (1.29%). Voluntary depositors make up only 7.88% of the invested funds as of June 30, 2018.

As of June 30, 2018, SDHC had \$20,999 invested in SDCIP. More information on SDCIP can be found at:

http://www.sdtreastax.com/con/dam/ttc/docs/pool_reports_1806.pdf.

Certificates of Deposit

As of June 30, 2018, SDHC had \$4,408 in negotiable certificates of deposit in its investment portfolio, of which \$2,940 is held at amortized cost. Each certificate of deposit is issued through a separate legal entity and purchased in an amount under the \$250 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 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, 2018, SDHC had \$73,926 invested in Agency MBS bonds.



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June 30, 2018

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, 2018:

	Level 1	Level 2	Level 3	Total
MBS	\$ -	\$ 73,926	\$ -	\$ 73,926
Certificates of Deposit	-	1,468	-	1,468
Total	<u>\$ -</u>	<u>\$ 75,394</u>	<u>\$ -</u>	<u>\$ 75,394</u>

Note 4 - Investment Risk Factors (Dollars in Thousands)

SDHC's investment policy allows the agency to invest surplus funds in accordance with the provisions of the U.S. Department of Housing and Urban Development (HUD) Notice PIH 96 - 33 and California Government Code Sections 5922 and 53601. The investment policy's foremost objective is the safety of principal, which is achieved by mitigating credit risk and interest rate risk. These risks, along with custodial risk, concentration of credit risk and market risk, all affect the value of investments to a varying degree. 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.

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



San Diego Housing Commission

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June 30, 2018

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, 2018 is as follows:

	Total fair value	Standard and Poor's Credit Rating			
		AAA	AA	A	Not Provided
Cash and cash equivalents					
Cash and cash equivalents	\$ 31,992	\$ -	\$ -	\$ -	\$ 31,992
Restricted cash and cash equivalents	3,824	-	-	-	3,824
Total cash and cash equivalents	<u>\$ 35,816</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,816</u>
Short-term investments					
Local Agency Investment Fund	\$ 11,179	\$ -	\$ -	\$ -	\$ 11,179
San Diego County Investment Pool	20,999	20,999	-	-	-
Other	25	25	-	-	-
Agency Bonds	5,558	-	-	-	5,558
Certificates of Deposit	1,468	-	-	-	1,468
Total short-term investments	<u>\$ 39,229</u>	<u>\$ 21,024</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,205</u>
Long-term investments					
Agency Bonds	\$ 68,368	\$ -	\$ -	\$ -	\$ 68,368
Certificates of Deposit	2,940	-	-	-	2,940
Total long-term investments	<u>\$ 71,308</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 71,308</u>

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 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.



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June 30, 2018

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 \$73,926 invested in Agency MBS and debentures as of June 30, 2018, 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, 2018, SDHC had \$4,408 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. SDHC does not have a formal policy related to interest rate risk.

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.

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.



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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, 2018, is as follows:

	Investment maturities as of			
	Total fair value	Less than 3 months	4 - 12 months	1 - 5 years
Cash and cash equivalents				
Deposits	\$ 31,982	\$ 31,982	\$ -	\$ -
Petty cash	10	10	-	-
Total cash and cash equivalents	<u>\$ 31,992</u>	<u>\$ 31,992</u>	<u>\$ -</u>	<u>\$ -</u>
Restricted cash and cash equivalents	<u>\$ 3,824</u>	<u>\$ 3,824</u>	<u>\$ -</u>	<u>\$ -</u>
Short-term investments				
Local Agency Investment Fund	\$ 11,179	\$ 11,179	\$ -	\$ -
San Diego County Investment Pool	20,999	20,999	-	-
Other	25	25	-	-
Agency Bonds	5,558	887	4,669	-
Certificates of Deposit	1,468	979	489	-
Total short-term investments	<u>\$ 39,229</u>	<u>\$ 34,071</u>	<u>\$ 5,158</u>	<u>\$ -</u>
Long-term investments:				
Agency Bonds	\$ 68,368	\$ -	\$ -	\$ 68,368
Certificates of Deposit	2,940	-	-	2,940
Total long-term investments	<u>\$ 71,308</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 71,308</u>



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June 30, 2018

Note 5 - Accounts Receivable - Funding Sources (Dollars in Thousands)

At June 30, 2018, amounts due from funding sources consist of the following:

Source / Program	Amount
Business	
City of San Diego	\$ 8,862
Total business	<u>8,862</u>
Federal	
HOME Investment Partnerships (HOME)	3,964
Capital Fund	842
Continuum of Care	723
Emergency Solutions Grant	380
Operating Fund	73
Community Development Block Grant (CDBG)	57
Federal - Various	<u>39</u>
Total federal	<u>6,078</u>
Total	<u><u>\$ 14,940</u></u>

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

Note 6 - Notes, Mortgages and Interest Receivable (Dollars in Thousands)

Loans made by SDHC consist 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 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
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, 2018

Notes, mortgages and interest receivable at June 30, 2018, consist of the following:

Borrower	Project Address	Interest Rate	Maturity Date	Principal Amount
Town & Country Village Apts.	4015-409 Messina Dr. San Diego, CA 92113	6.80%	12/31/73	\$ 13,250
Arbor Terrace	3693-374 Florida St. San Diego, CA 92104	4.86%	07/01/62	11,295
Mesa Verde CIC, LP/Mission	7811 Mission Gorge Rd. San Diego, CA 92120	4.00%	06/30/73	9,120
Fairmount Family Housing, L.P.	6121-612 Fairmount Ave. San Diego, CA 92120	4.00%	12/31/74	7,094
Mercado CIC, LP	Cesar E Chavez Parkway Lot 2,6&7, SD CA 92113	5.00%	05/02/68	7,000
Texas St. Sr. Hsg LP/North	4200 Texas St. San Diego, CA 92104	4.00%	07/31/73	7,000
Steadfast Villa Nueva LP	3604 Beyer Blvd. San Diego, CA 92173	3.00%	05/01/62	6,994
Florida Street Housing Assoc -	3783-3825 Florida St. San Diego, CA 92104	3.00%	02/01/67	6,966
San Ysidro CIC, LP/Paseo La	238-240; 251-263 Cypress Dr. San Diego, CA 92173	4.00%	12/31/74	6,938
Dawson Ave. Senior Apts. LP-	4321-52nd St. San Diego, CA 92115	2.00%	11/12/63	6,731
City Heights Ten, L.,	10 non-contiguous parcels San Diego, CA 92105	3.56%	03/31/69	6,575
Delta Village Housing Assoc.	4316-436 Delta St. San Diego, CA 92113	3.00%	05/01/36	6,100
Villa Encantada AMCAL	505-537 62nd; 504-528 63rd St, SD, CA 92114	4.00%	12/31/73	5,625
Twain Housing, L.P.	4304 Twain Ave. San Diego, CA 92120	3.00%	12/31/74	5,625
LINC Arbor Village Apartments	4914-499 Logan Ave. San Diego, CA 92113	3.00%	05/01/67	5,460
Georgia Street, L.P./ City	4105 Georgia St. San Diego, CA 92104	3.00%	07/01/66	5,111
San Diego Commons, LP/	6456 El Cajon Blvd. San Diego, CA 92115	3.00%	04/30/69	4,905
Talmadge Gateway, LP	4422 Euclid Ave. San Diego, CA 92115	3.00%	06/01/72	4,800
Beyer Blvd Apts. LP	3412-346 Beyer Blvd. San Diego, CA 92154	3.00%	10/22/59	4,200
Del Sol Apts. LP	Del Sol Apts, 3606-3690 Del Sol San Diego, CA 92154	3.00%	08/31/61	4,126
Normal Heights, CIC, L.P.	3808 El Cajon Blvd. San Diego, CA 92105	3.00%	05/31/74	3,900
HDP Churchill, L.P./Hotel	827 C St. San Diego, CA 92101	3.00%	08/31/71	3,800
Alabama Manor Hsg	3822-383 Alabama St. San Diego, CA 92104	0.00%	12/31/63	3,793
Renaissance Sr Hsg.	4330 30th St. San Diego, CA 92104	4.65%	04/12/59	3,789
Villa Harvey Mandel, L.P.	72 17th Ave. San Diego, CA 92101	5.60%	02/12/57	3,768
Golden Age Garden Hsing Prtn	740 South 36th St. San Diego, CA 92113	3.00%	12/31/67	3,661
Market Square Manor	525 14th St. San Diego, CA 92113	5.60%	02/10/58	3,656
Imperial Urban Hsg, LP/	1435 Imperial Ave. San Diego, 92101	3.00%	12/31/72	3,535
15th & Commercial, L.P.	1506 Commercial St. San Diego, CA 92101	3.00%	01/01/66	3,464
Comm22 Sr. Hsg., LP/Victoria	Commercial & 22nd St. San Diego, CA 92113	3.00%	05/01/69	3,456
Trolley Residential CIC, L.P.	4981 Market St. San Diego, CA 92114	4.00%	06/30/72	3,120
Creekside - Affirmed Hsg.	2125-215 Coronado Ave. San Diego, CA 92154	5.20%	06/30/35	3,118
Wakeland Atmosphere,	5th Ave. & Beech St. San Diego, CA 92101	4.00%	03/01/70	3,000
Wakeland Vista Grand,	5391-541 Santa Margarita, San Diego, CA 92114	3.00%	05/01/67	2,967
HDP New Palce, LP	1814 5th Ave. San Diego, CA 92101	4.00%	12/31/73	2,945
34th Street Project, LLC	4637 34th St. San Diego, CA 92116	3.00%	02/24/77	2,920
Mesa Family Villas,L.P.	2061-207 Avenida Del Mexico, San Diego, CA 92154	5.60%	02/08/57	2,894
Juniper Gardens, L.P.,	4251 Juniper St. San Diego, CA 92105	3.00%	12/31/68	2,839
Vietnam Veterans ofSD/ Phase	Veterans Village, 4141 Pacific Highway, S D 92110	3.00%	05/29/72	2,760
WJJ CIC, L.P.	327 S Willie James Jones, San Diego, CA 92130	4.00%	01/31/71	2,500
Amcal Mission, LP/Mission	1815-187 Hancock St. San Diego, CA 92110	3.00%	01/01/68	2,499
HDP Mason Hsg. Corp./Mason	1337-134 Fifth Ave. San Diego, CA 92101	3.00%	02/28/68	2,365
Hacienda Townhomes,Ltd.	350 17th St. San Diego, CA 92101	4.50%	07/01/48	2,346
Riverwalk Apartments, L.P.	1194 Hollister St. San Diego, CA 92154	3.00%	03/01/65	2,275
Grantville Veteran Housing,	4370 Alvarado Canyon Rd. San Diego, CA 92120	3.00%	12/31/73	2,250
HDP Churchill, L.P./Hotel	827 C St. San Diego, CA 92101	3.00%	08/31/71	2,232
Wakeland Village Green Apts	4140-415 Bonillo Dr. San Diego, CA 92115	3.00%	04/01/65	2,165



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Borrower	Project Address	Interest Rate	Maturity Date	Principal Amount
Winona Gardens Housing	3810 Winona Ave. San Diego, CA 92105	3.00%	07/01/55	2,100
Mission Terrace Associates, LP	10210 San Diego Mission Rd. San Diego, CA 92108	3.00%	09/01/49	2,055
Vista del Puente, L.P.	3934 Gamma St; 1510 S 40th St. San Diego, CA 92113	3.00%	12/31/75	2,050
Pathfinders of San D,	2621-262 University Ave. San Diego, CA 92104	3.00%	07/15/65	2,050
Terramar CIC, L.P.,	13481 Silver Ivy Lane, San Diego, CA 92129	3.00%	06/01/68	2,035
Vietnam Veterans of SD/	4141 Pacific Highway, San Diego, CA 92110	3.00%	05/01/75	2,001
Connections	1250 Sixth Ave. San Diego, CA 92101	3.00%	06/01/69	2,000
Metro Villas Housing Partners	4031-408 39th St. San Diego, CA 92105	4.85%	02/01/58	1,978
YWCA of SD County-Becky's	2540-2550 Garnet Ave. San Diego, CA 92109	0.00%	11/10/62	1,786
Wakeland-Beacon, LP Beacon	145 C St. San Diego, CA 92110	4.50%	38/2073	1,600
Townspeople, a CA nonprofit	4242-4260 51st St. San Diego, CA 92115	3.00%	05/01/61	1,570
St. Stephens Hsg. LP /Jean	5641 Imperial Ave. San Diego, CA 92114	4.79%	05/01/36	1,553
Chicano Federation	5052 Wightman St. San Diego, CA 92105	3.00%	07/01/54	1,537
Vietnam Veterans ofSD/ Phase	4141 Pacific Highway, San Diego, CA 92110	3.00%	08/01/77	1,492
Chicano Federation	4420 Delta St. San Diego, CA 92113	3.00%	11/01/54	1,486
Vietnam Veterans of San	4141 Pacific Highway, San Diego, CA 92110	3.00%	07/01/70	1,437
Mercado Apartments /MAAC	2001-2097 Newton;2008-2094 Main St. SD CA 92101	6.00%	12/01/47	1,425
Bolt Housing Partners LP/	4010-4050 Parkhaven Ct. San Diego, CA 92113	3.00%	04/01/56	1,419
Logan Development L.P./Knox	4720-476 Logan Ave. San Diego, CA 92113	6.00%	11/30/50	1,400
Casa Colina LP	5207 52nd Place, San Diego, CA 92105	3.00%	02/01/59	1,318
Chicano Federation	5222 Trojan Ave. San Diego, CA 92115	3.00%	07/01/53	1,145
Creekside-AffirmedFamily Hsg.	2125-215 Coronado Ave. San Diego, CA 92154	4.79%	06/30/35	1,043
TACHS Cove Apts LLC	5288 El Cajon Blvd. San Diego, CA 92115	3.00%	05/01/62	982
NCRC Encanto, L.P. Encanto	1617-165 Imperial Ave. San Diego, CA 92114	4.00%	05/31/74	960
SD LGBT Community Center	1640 Broadway, San Diego, CA 92101	0.00%	11/01/60	934
Catholic Charities 9th & F ST.	798 Ninth Ave. San Diego, CA 92101	0.00%	10/31/58	928
Mayberry	4328-449 Mayberry St. San Diego, CA 92113	2.64%	12/31/71	906
Carmel Valley Hsg./Torrey Del	13875 Carmel Valley Rd. San Diego, CA 92130	3.00%	06/30/56	892
Urban Housing/GrantHeights	2651-266 J St. San Diego, CA 92102	3.00%	02/01/57	867
Urban Council Dev't Inc./Villa	4227 52nd St; 5202 Orange Ave. San Diego, CA 92115	3.00%	12/17/54	742
Lillian Place LP	1401 & 1437 J St. San Diego, CA 92101	3.00%	12/16/60	731
Vietnam Veterans ofSD/ Phase	Veterans Village, 4141 Pacific Highway, S D 92110	3.00%	06/01/72	720
Bayview CDC	1440-1516 S. 40th St. San Diego, CA 92113	3.00%	02/01/56	696
Vietnam Veterans of SD/	Veterans Village, 4141 Pacific Highway, S D 92110	3.00%	05/15/70	675
Hope CDC/Lincoln Park	4910-4920 Ocean View Blvd;440-444 49th St. SD 92113	3.00%	12/22/48	647
South Bay CommunityServices	135 Averil Rd. San Diego, CA 92173	3.00%	12/16/53	631
3137 El Cajon Blvd. LP-The	3137 El Cajon Blvd. San Diego, CA 92104	3.00%	12/31/63	600
Chicano Federation	4033 33rd St. San Diego, CA 92104	3.00%	12/01/52	596
Housing Innovation P	1851-186 Titus St. San Diego, CA 92103	3.00%	10/20/58	573
Nook East Village, LP	1492 K Street, San Diego, CA 92101	0.00%	09/01/48	563
Creekside - Affirmed Hsg.	2125-215 Coronado Ave. San Diego, CA 92154	4.72%	06/30/35	545
Santaluz Family Apts. LP-	16775 Saintbury Glen, San Diego, CA 92130	3.00%	09/20/60	500
COMM 22 Family Hsg. LP	Commercial & 22nd St. San Diego, CA 92113	3.00%	05/01/69	500
Total Major Loans				268,600
Home ownership loans (Under \$500)				51,813
Single-Family rehabilitation loans (Under \$500)				13,849
Rental Housing Finance loans with rehab / acquisition (under \$500)				5,443
Total Non-Major Loans as of June 30, 2018				71,105
Total Major Loans and Total Non-Major Loans as of June 30, 2018 (Not Including Deferred Loans)				339,705
Allowance for Loan Losses				(4,999)
Allowance for Forgivable Loans				(5,443)
Total notes receivable at June 30, 2018				329,263
Deferred cumulative interest receivable at June 30, 2018				45,255
Total notes and interest receivable at June 30, 2018				<u>\$ 374,518</u>

Notes and mortgages receivable due in less than one year amounted to \$1,174 at June 30, 2018.



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

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

<u>Balance, July 1, 2017</u>	<u>Losses/ write-offs</u>	<u>Additions/ adjustments</u>	<u>Balance, June 30, 2018</u>
<u>\$ 10,552</u>	<u>\$ (546)</u>	<u>\$ 436</u>	<u>\$ 10,442</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 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, 2018, total \$58,107.



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

Note 7 - Capital Assets (Dollars in Thousands)

A summary of changes in capital assets for the year ended June 30, 2018 is as follows:

	Balance, June 30, 2017	Additions	Transfers / Retirements	Balance, June 30, 2018
Capital assets, not being depreciated				
Land	\$ 69,341	\$ 1,999	\$ (1,259)	\$ 70,081
Construction in progress	2,772	13,966	(15,860)	878
Total capital assets, not being depreciated	72,113	15,965	(17,119)	70,959
Capital assets, being depreciated				
Buildings	107,701	13,523	(9,233)	111,991
Building improvements	57,590	-	15,860	73,451
Office furniture and equipment	4,821	462	(536)	4,747
Total capital assets, being depreciated	170,112	13,985	6,092	190,189
Less accumulated depreciation for:				
Buildings	(23,542)	(2,779)	191	(26,130)
Building improvements	(15,194)	(4,110)	-	(19,304)
Office furniture and equipment	(4,119)	(326)	536	(3,909)
Total accumulated depreciation	(42,855)	(7,215)	727	(49,343)
Total capital assets, being depreciated, net	127,257	6,770	6,819	140,846
Total capital assets, net	\$ 199,370	\$ 22,735	\$ (10,300)	\$ 211,805

In fiscal year 2018, \$15,860 of building improvements transferred out of construction in progress. The building improvements related to the completion of Green Physical Needs Assessment rehabilitation projects inclusive of new roofs, windows and garage doors at various properties such as Hotel Sanford and multiple properties within the Fannie Mae Central portfolio. Additionally, completion of the Via Las Cumbres and Adaptable Housing rehab contributed to the building improvements. The \$1,999 addition to land and \$13,523 addition to buildings related to the acquisition of the Quality Inn and West Park Inn properties. Additionally, SDHC sold the Town & Country property to Housing Development Partners of San Diego (HDP), an affiliate of SDHC, which resulted in the disposition of land and buildings in the amount of \$1,259 and \$9,233,



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

respectively. The sale of the Town & Country property to HDP also resulted in a gain of \$13,681 due to the excess acquisition price over carryover basis.

Depreciation expense for the year ended June 30, 2018 was \$7,215.

Note 8 - Prepaid Items and Other Assets (Dollars in Thousands)**Prepaid Items and Other Current Assets**

As of June 30, 2018 prepaid and other items consisted of the following:

Prepaid grants	\$	1,748
Prepaid software licenses		772
Escrow deposits - mortgage insurance premiums		201
Prepaid mortgage insurance		92
Prepaid insurance		69
Prepaid other		1
		<hr/>
Total prepaids and other	\$	<u>2,883</u>

Other Noncurrent Assets

As of June 30, 2018, other noncurrent assets was \$149. The balance consisted primarily of rents receivable. The rents receivable balance is related to the straight lining of commercial rents over the period of the associated leases. For more information on commercial leases, please see Note 10.



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

Note 9 - Notes Payable (Dollars in Thousands)

A summary of notes payable at June 30, 2018 is as follows:

	Fiscal Year						
Type of Obligation	Interest Rate	Maturity Date	Balance, 6/30/2017	New Note Additions	(Payments)/ Amortization	Balance, 6/30/2018	Due Within One Year
Debts of the Commission							
Key Bank Real Estate Capital - Smart Corner	6.08%*	2027	\$ 6,646		(1,412)**	\$ 5,234	\$ 880
* Note converts to variable interest rate after November 2021.							
** Payment includes optional annual principal pay down of \$613.							
City of San Diego - Parker Kier	0.00%	2022	696	-	-	696	-
City of San Diego - Hotel Sandford	1.00%	2065	6,080	-	-	6,080	-
Forgivable loan with accrued interest totaling \$198.							
State of California - Housing Loan Conv Program 12-HLCP-0004	3.00%	2068	1,405	-	-	1,405	-
State of California - Housing Loan Conv Program 12-HLCP-0003	3.00%	2068	3,150	-	-	3,150	-
Red Capital Mortgage, LLC - Courtyard Apartments	4.92%	2030	-	4,169		4,169	62
Debts of the LLCs							
Greystone Servicing Corp, Inc. - Belden SDHC FNMA, LLC	7.32%	2040	11,204	-	(202)	11,002	217
Greystone Servicing Corp, Inc. - Northern SDHC FNMA, LLC	7.32%	2040	9,831	-	(177)	9,654	191
Greystone Servicing Corp, Inc. - Central SDHC FNMA, LLC	7.32%	2040	12,741	-	(230)	12,511	247
PNC Bank, NA FHA - Southern SDHC FHA, LLC	3.76%	2046	22,366	-	(453)	21,913	471
PNC Bank, NA FHA - Northern SDHC FHA, LLC	3.76%	2046	15,645	-	(317)	15,328	329
PNC Bank, NA FHA - Central SDHC FHA, LLC	3.65%	2046	14,050	-	(288)	13,762	299
Subtotal			103,814	4,169	(3,079)	104,904	2,696
Less unamortized debt issuance costs			(1,609)	-	74	(1,535)	-
Total			\$ 102,205	\$ 4,169	\$ (3,005)	\$ 103,369	\$ 2,696

At June 30, 2018, the current portion of notes payable was \$2,696 and the noncurrent portion of notes payable was \$102,208.

Debt issuance costs associated with the LLC loans totaled \$2,120, less accumulated amortization of \$585 at June 30, 2018. For fiscal year 2018, amortization totaled \$74. 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 ASU 2015 - 13, debt issuance costs are capitalized and presented as a direct deduction to notes payable. In addition, the debt issuance costs are amortized over the life of the loan using the effective interest method.



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

In May 2018, SDHC entered into a \$4,169 loan agreement with Red Capital Mortgage, LLC to leverage Courtyard Apartments, which is a 37-unit, affordable rent, property owned by SDHC. The proceeds from the loan funded numerous rehabilitation projects within SDHC's real estate portfolio and administrative costs associated with these rehabilitation projects. The term of the loan is for 12 years, amortized over 30 years, with a fixed interest rate of 4.92% for the life of the loan through the maturity date of June 1, 2030 at which time the unpaid principal balance becomes due and payable.

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 \$722 in fiscal year 2018.

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 \$696 and \$6,080, which are forgiven at maturity in 2022 and 2065, respectively. There was accrued interest of \$0 and \$198, respectively, as of June 30, 2018.

	Notes payable		
	Principal	Interest	Total
Year ending June 30, 2019	\$ 2,696	\$ 4,799	\$ 7,495
2020	2,846	4,648	7,494
2021	3,006	4,488	7,494
2022	3,175	4,318	7,493
2023	3,354	4,138	7,492
2024-2028	13,313	18,519	31,832
2029-2033	19,893	14,041	33,934
2034-2038	21,754	8,461	30,215
2039-2043	17,047	2,742	19,789
2044-2048	6,488	359	6,847
2048-2070	4,556	6,947	11,503
Subtotal	98,128	73,460	171,588
Forgivable loans	6,776	-	6,776
Total Notes Payable	104,904	73,460	178,364
Less: Unamortized debt issuance costs			(1,535)
Total Notes Payable, Net			<u>\$ 176,829</u>



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

Note 10 - Lease Commitments (Dollars in Thousands)**Lease Revenue**

SDHC receives revenue from long-term land leases and commercial tenants. Commercial lease revenue is recognized on a straight line basis over the term of the lease. Land lease terms include annual payments ranging from \$12 to \$817,640 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, Courtyard and Hotel Sanford. For fiscal year 2018, SDHC received land lease and other rental income, which is comprised of the following:

Land leases	\$	1,139
Commercial leases		878
Parking and other rental income		584
		<hr/>
	\$	2,601
		<hr/>

Aggregate future minimum lease revenues are as follows:

Year(s) ending June 30, 2019	\$	2,075
2020		1,690
2021		1,630
2022		1,620
2023		1,495
2024-2028		6,835
2029-2033		6,767
2034-2038		6,690
2039-2042		6,414
		<hr/>
	\$	35,216
		<hr/>

Operating Leases

SDHC accounts for all lease arrangements as operating leases. SDHC does not hold any leases payable at June 30, 2018.

Note 11 - Defined Contribution Pension Plan (Dollars in Thousands)

SDHC provides a pension plan which is a defined contribution plan and is intended to be a "governmental plan" as defined by Sections 411(s)(1)(A) and 414(d) of the IRC and Section 3(32) of the Employee Retirement Income Security Act of 1974, as amended (ERISA). The pension plan covers all SDHC employees classified as



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

permanent full time and permanent part time hired to work a minimum of 20 hours per week.

In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Eligible employees participate on their date of hire. SDHC contributes 14% of defined earnings each pay period for each eligible employee. Contributions (and interest allocated to the employee's account) vest ratably over four years of service, with a year of service defined as an employee completing at least 1,000 hours of service. Any forfeited SDHC contributions and related interest are used to fund a future SDHC pay period contribution. For the fiscal year ended June 30, 2018, covered payroll was \$22,492. Pension expense related to SDHC's required contribution was \$3,149 and plan members contributed \$193 for the fiscal year ended June 30, 2018.

At June 30, 2018, there were 408 employees in the plan, including: 2 inactives receiving benefits, 106 inactives not yet receiving benefits and 300 active employees.

The retirement pension benefit is available at normal retirement age (62nd birthday) or upon termination or disability. The retirement pension benefits are determined based upon the vested value of the participant's accumulation accounts at the time of distribution. Distributions must commence no later than April 1st of the calendar year following the calendar year in which the participant attains age seventy and one-half (70½) years of age.

The Plan has a third party fiduciary, Retirement Benefits Group, and a third party recordkeeper, 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.



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

Note 12 - Deferred Compensation Plan (Dollars in Thousands)

SDHC offers a deferred compensation plan which is a defined contribution plan as permitted under Section 457 of the Internal Revenue Code (IRC). The deferred compensation plan is intended to be a "governmental plan" as defined by Sections 411(s)(1)(A) and 414(d) of the IRC and Section 3(32) of the Employee Retirement Income Security Act of 1974, as amended (ERISA). The deferred compensation plan is available to all permanent and temporary non-benefited employees of the SDHC who have completed one hour of service (qualified employees) and it permits qualified employees to defer a portion of their salary until future years.

SDHC is required to contribute 3.75% of defined earnings for each temporary non-benefited employee and 1% of defined earnings for each permanent employee. SDHC also contributes a 100% matching contribution of elective deferrals up to a maximum of 1.5% for each permanent employee. All contributions by SDHC and the qualified employees are fully vested at the time of contribution. For the fiscal year ended June 30, 2018, SDHC's covered payroll was \$23,883. Deferred compensation expense related to SDHC's required contribution was \$561 and plan members contributed \$1,148 for the fiscal year ended June 30, 2018.

At June 30, 2018, there were 622 employees in the plan, including: 4 inactives receiving benefits, 213 inactives not yet receiving benefits and 405 active employees.

Participants in the deferred compensation plan generally may borrow up to 50% of their vested account balance, subject to certain restrictions. These participant loans bear a reasonable interest rate, which is determined at the time the loan is advanced. Participants are entitled to their deferred compensation upon termination, retirement, death, disability or an unforeseeable emergency.

Great-West Life & Annuity Insurance Company (Great-West) is the third party trustee of the deferred compensation plan and Retirement Benefits Group is the third party fiduciary. All assets and income of the deferred compensation plan are held in trust by a third party for the exclusive benefit of the participants and their beneficiaries, and per federal law, are not available to SDHC or its creditors. As a result, the plan's assets are not included in SDHC's basic financial statements. The assets held by the plan had a market value of \$17,074 at June 30, 2018. The plan is audited by an outside firm, and a copy of the audit can be obtained by contacting the San Diego Housing Commission at 1122 Broadway, Suite 300, San Diego, CA 92101.



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

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 \$750,000 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 \$750,000 limit up to the statutory requirements (\$5,000,000 per occurrence).

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.

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



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

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, 2018. 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 - Net Position (Dollars in Thousands)

SDHC's net position totaled \$630,982 for the period ending June 30, 2018 and is comprised of the following:

Net Investment in Capital Assets

SDHC's net investment in capital assets totaled \$107,299 for the period ending June 30, 2018. This relates to funds spent on capital assets being used for operations of SDHC.

Restricted Net Position

SDHC's restricted net position totaled \$199,382 for the period ending June 30, 2018. Of the total amount, \$181,021 is related to HOME - funded notes receivable, \$5,228 is related to CDBG Affordable Housing Revolving Loan Fund (AHRLF)- funded notes receivable, while \$7,068 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.



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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

The CDBG AHRLF provides loans for the First Time Homebuyer Down Payment Assistnace Program, which provides low-income households with assistance to help with the purchase of a single family home, the "Pilot" Clean and Green Housing Rehabilitation Program Development, providing rehabilitation grants and/or loans for efficiency and sustainability upgrades to single-family detached, owner-occupied units, and Affordable Multi-Family Housing which contributes to the creation of affordable rental housing opportunities and will provide gap financing loans for the acquistion and/or rehabilitation of multi-family housing.

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 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, AHRLF, and NSP grant funds, \$3,735 is restricted for the replacement and operating reserves required by the debt obligations of the LLC's and the Otay, Adaptable Housing and Hotel Sandford projects. The remaining restricted balance, amounting to \$2,330, consists of \$2,230 of Veterans Affairs Supportive Housing (VASH) reserves and \$100 of Family Unification Program (FUP) reserves. Both VASH and FUP's restricted balances are administered in accordance with Housing Choice Vouchers (HCV) requirements.

Unrestricted Net Position

SDHC's unrestricted net position totaled \$324,301 for the period ending June 30, 2018. Unrestricted net position follows GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", wherein these funds are not included in the determination of net investment in capital assets or the restricted component of net position. In addition, although these funds are defined as unrestricted, these funds are not necessarily indicative of funds available for discretionary use. Of the total unrestricted amount, \$181,180 relates to notes receivable (money due to SDHC, not on-hand and net of allowance for loan loss), \$22,623 relates to loans and grants SDHC has committed



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

to fund (also see Note 16), and the remaining \$120,498 either have federal/state/local programmatic restrictions, are earmarked for property maintenance or are reserves required by the City of San Diego for contingencies.

Note 15 - Economic Dependency (Dollars in Thousands)

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, 2018, SDHC's original budget included \$250,876 of estimated HUD funding. A reduction in funding from HUD could significantly change the services provided by SDHC.

Note 16 - Commitments and Contingencies (Dollars in Thousands)

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, 2018. The amount of loans and grants SDHC has committed to fund, but has not funded as of June 30, 2018, is \$22,623.

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, 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 worked with a retirement plan consultant to review compliance with all applicable laws and regulations and it was determined that some discrepancies between the Plan document and operational execution existed. In fiscal year 2017 SDHC submitted a Voluntary Compliance Program (VCP) to the Internal Revenue Service and resolution is anticipated in fiscal year 2019. SDHC has reserved a contingency amount reflecting any anticipated fiscal impact of corrections identified



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

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). The fund seeks to:

- 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. The HTF regulations require that:

- No less than ten percent (10%) of the funds in the San Diego Housing Trust Fund account shall be expended to provide transitional housing for households who lack permanent housing;
- No less than sixty percent (60%) of the funds in the Trust Fund account shall be expended to provide housing to very low income households at affordable housing costs;



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

- No more than twenty percent (20%) of the funds in the San Diego Housing Trust Fund account shall be expended to provide housing to low income households at affordable housing costs; and
- No more than ten percent (10%) of the funds in the San Diego Housing Trust Fund account shall be expended to assist median income and moderate income first-time home buyers purchase a home at an affordable housing cost.

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-sale properties.

The following table reflects the condensed statement of revenues, expenses and changes in net position as of the fiscal year ended June 30, 2018 for IHF and HTF as required by the AHF Ordinance (San Diego Municipal Code Section 98.0515) and the dollars presented in the table below are in thousands.



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

	Inclusionary Housing Fund	Housing Trust Fund
Operating Revenues		
Fee revenue	\$ 331	\$ 54
Total operating revenue	331	54
Operating Expenses		
Administrative expenses	2,439	713
Grant expense	1,506	595
Housing assistance	123	466
Total operating expenses	4,068	1,774
Operating loss	(3,737)	(1,720)
Non- Operating Revenues		
Grant revenue	18,739	2,970
Interest income on investments and notes receivable	1,980	1,085
Total non-operating revenues	20,719	4,055
Change in net assets	\$ 16,982	\$ 2,335

Note 18 - Blended Component Units

SDHC's blended component unit reflects SDHC Building Opportunities, Inc. (Building Opportunities) and the LLCs.

Building Opportunities

Building Opportunities is a 501(c)(3) California Nonprofit Public Benefit Corporation, which has been classified by the Internal Revenue Service as a public charity. For the fiscal year-ended June 30, 2018, Building Opportunities raised \$8,000, which is recorded in other revenue in the statement of revenues, expenses and changes in net position. As of June 30, 2018, the monies raised have not yet been expended.



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

LLCs

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 LLCs of the San Diego Housing Commission for the year ended June 30, 2018:



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

San Diego Housing Commission - Blended Component Units

Balance Sheet

June 30, 2018

(Dollars in Thousands)

	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
<u>Assets</u>								
Current assets								
Operating cash	\$ 525	\$ 384	\$ 821	\$ 788	\$ 1,074	\$ 710	\$ -	\$ 4,302
Security deposit account	101	82	118	98	176	151	-	726
Restricted cash	419	223	240	302	636	600	-	2,420
Accounts receivable	23	9	13	23	36	31	-	135
Allowance for doubtful accounts	-	(3)	(6)	(6)	(12)	(18)	-	(45)
Prepaid mortgage insurance	-	-	-	25	36	30	-	91
Escrow account - MIP	-	-	-	61	87	49	-	197
Total current assets	1,068	695	1,186	1,291	2,033	1,553	-	7,826
Capital assets								
Land	2,226	2,985	3,217	3,691	3,683	3,852	30	19,684
Building	1,815	3,252	3,929	5,098	3,901	3,857	-	21,852
Building improvements	303	2,302	5,440	5,962	6,627	4,585	-	25,219
Office furniture and equipment	36	44	-	-	-	-	-	80
Accumulated depreciation	(596)	(1,126)	(2,555)	(2,870)	(2,810)	(2,145)	-	(12,102)
Work in progress - bldg improv	-	-	-	-	-	82	-	82
Total capital assets	3,784	7,457	10,031	11,881	11,401	10,231	30	54,815
Total assets	\$ 4,852	\$ 8,152	\$ 11,217	\$ 13,172	\$ 13,434	\$ 11,785	\$ 30	\$ 62,641



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

San Diego Housing Commission - Blended Component Units

Balance Sheet

June 30, 2018

(Dollars in Thousands)

	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
<u>Liabilities</u>								
Current liabilities								
Accounts payable	\$ 84	\$ 814	\$ 356	\$ 705	\$ 123	\$ 126	\$ -	\$ 2,208
Related party payable	51	40	70	77	109	96	-	443
Accrued interest payable	67	59	76	48	69	42	-	361
First mortgage - current portion	217	191	247	329	471	299	-	1,754
Prepaid revenue	34	20	17	22	34	30	-	157
Tenant security deposits	101	82	118	98	176	151	-	726
Total current liabilities	554	1,206	884	1,279	982	744	-	5,649
Longterm liabilities								
First mortgage payable, net	10,685	9,373	12,094	14,642	20,952	13,137	-	80,883
Total liabilities	11,239	10,579	12,978	15,921	21,934	13,881	-	86,532
<u>Net Position</u>								
Net investment in capital assets	(7,218)	(2,197)	(2,480)	(3,447)	(10,430)	(3,212)	30	\$ (28,954)
Restricted net position	419	223	240	302	636	600	-	2,420
Unrestricted net position	412	(453)	479	396	1,294	515	-	\$ 2,643
Total net position	(6,387)	(2,427)	(1,761)	(2,749)	(8,500)	(2,097)	30	\$ (23,891)
Total liabilities and net position	\$ 4,852	\$ 8,152	\$ 11,217	\$ 13,172	\$ 13,434	\$ 11,785	\$ 30	\$ 62,641



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

San Diego Housing Commission - Blended Component Units

Statement of Operations

For the period ended June 30, 2018

(Dollars in Thousands)

	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
Income								
Rental income	\$ 2,444	\$ 2,106	\$ 2,939	\$ 2,905	\$ 4,446	\$ 3,492	\$ -	\$ 18,332
Other income	273	27	20	232	328	30	-	910
Total income	2,717	2,133	2,959	3,137	4,774	3,522	-	19,242
Expenses								
Operating expenses								
Salaries and benefits	167	143	230	178	356	315	-	1,389
Management fee	123	107	148	147	225	176	-	926
Other admin	26	237	31	58	52	53	-	457
Utilities	155	154	213	250	408	352	-	1,532
Repairs and maintenance	278	2,271	1,779	1,140	1,838	613	-	7,919
Protective services	34	17	-	1	34	32	-	118
Insurance	41	31	32	33	44	48	1	230
Total operating expenses	824	2,960	2,433	1,807	2,957	1,589	1	12,570
Other expenses								
Interest expense	812	713	924	582	832	507	-	4,370
Mortgage insurance	-	-	-	70	100	62	-	232
Depreciation	77	164	350	570	576	431	-	2,168
Amortization	5	5	8	18	25	16	-	77
Bad debt expense	25	19	23	10	19	45	-	141
Other expenses	36	25	11	10	8	21	3	114
Total other expenses	955	926	1,316	1,260	1,560	1,082	3	7,102
Total expenses	1,779	3,886	3,749	3,067	4,517	2,671	3	19,672
Net income	938	(1,753)	(790)	70	257	851	(3)	(430)
Operating transfer in	(1,074)	(931)	(1,215)	(1,126)	(1,519)	(1,622)	-	(7,487)
Operating transfer out	1,074	931	1,215	1,126	1,519	1,622	-	7,487
Net operating transfers	-	-	-	-	-	-	-	-
Net income (loss) net of financing sources	\$ 938	\$ (1,753)	\$ (790)	\$ 70	\$ 257	\$ 851	\$ (3)	\$ (430)

San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

Note 19 - Discretely Presented Component Units

The discretely presented component units include the consolidated financial statements of the financial reporting entity, Housing Development Partners of San Diego (collectively referred to as the "Corporation"). The Corporation follows accounting principles of the FASB. The entities consolidated within the Corporation's financial statements include: Housing Development Partners of San Diego, Casa Colina, L.P., HDP Mason Housing Corporation, Logan Development Management, LLC, Logan Development II, L.P., HDP Parker Kier, LLC, HDP Churchill, LLC, HDP Churchill, L.P., HDP Broadway, L.P., HDP Broadway Management, LLC, HDP Island Village, LLC, HDP New Palace, L.P., HDP New Palace Management, LLC, HDP Town & Country, LLC, HDP Town & Country L.P., HDP Village North, LLC, HDP Quality Inn, LLC, HDP West Park, L.P., and HDP West Park Management, 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, 2017 is presented below along with the Notes to the Financial Statements. Due to differing fiscal years the nature and amount of inter-entity transactions between the primary government and component units are disclosed in the table below.

San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

Type of Obligation		HDP Balance 12/31/2017	Additions	Payments	SDHC Balance 6/30/2018
SALARIES PAYABLE AND OTHER PAYABLE					
<u>Debts of Housing Development Partners of San Diego</u>					
San Diego Housing Commission		\$ 124,628	\$ 635,779	\$ 540,577	\$ 219,830
ACCRUED INTEREST PAYABLE AND NOTES PAYABLE					
<u>Debts of HDP Mason Housing Corporation</u>					
San Diego Housing Commission	Principal	2,365,284	-	-	2,365,284
San Diego Housing Commission	Interest	399,194	35,282	-	434,476
San Diego Housing Commission	Principal	68,858	-	-	68,858
San Diego Housing Commission	Interest	29,137	1,024	-	30,161
San Diego Housing Commission - Debt Forgiveness	Principal	115,000	-	-	115,000
<u>Debts of Casa Colina, LP</u>					
San Diego Housing Commission	Principal	1,409,961	-	91,520	1,318,441
San Diego Housing Commission	Interest	21,849	20,527	31,719	10,657
<u>Debts of Logan Development II, LP</u>					
San Diego Housing Commission	Principal	1,400,000	-	-	1,400,000
San Diego Housing Commission	Interest	1,403,296	42,466	49,926	1,395,836
<u>Debt of HDP Churchill, LP</u>					
San Diego Housing Commission	Principal	3,712,612	87,388	-	3,800,000
San Diego Housing Commission	Interest	176,330	56,083	-	232,413
San Diego Housing Commission	Principal	2,124,812	181,797	74,163	2,232,446
San Diego Housing Commission	Interest	64,532	(63,974)	-	558
<u>Debts of HDP New Palace, LP</u>					
San Diego Housing Commission	Principal	2,945,000	-	-	2,945,000
San Diego Housing Commission	Interest	39,594	58,573	11,285	86,882
<u>Debts of HDP Town & Country, LP</u>					
San Diego Housing Commission*	Principal	13,250,000	-	-	13,250,000
San Diego Housing Commission*	Interest	102,614	445,392	-	548,005
		<u>\$ 29,752,701</u>	<u>\$ 1,500,337</u>	<u>\$ 799,190</u>	<u>\$ 30,453,847</u>

*For presentation purposes with the primary government this is presented as a liability throughout note 19

San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

San Diego Housing Commission - Discretely Presented Component Units Consolidating Statement of Financial Position December 31, 2017

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	New Palace	HDP New Palace, LP	HDP Town & Country, LP	Other Consolidated Companies	Eliminations	Consolidated
Current Assets:													
Cash and cash equivalents	\$ 5,922,835	\$ 24,046	\$ 240,029	\$ 204,078	\$ 966,847	\$ 320,004	\$ 109,566	\$ 102,702	\$ 135,931	\$ 472,583	\$ 1,811,354	\$ -	\$ 10,309,975
Tenant security deposits	-	10,686	23,706	25,652	47,314	61,799	16,973	-	16,575	123,799	63,945	-	390,449
Accounts receivable	254,717	1,592	79,679	-	22,650	12,921	3,512	423	3,198	97,832	80,991	(222,300)	335,215
Related party advances	176,684	-	-	-	-	-	-	101,243	-	-	-	(277,927)	-
Prepaid expenses	2,817	1,984	16,692	6,010	15,501	11,315	4,669	-	-	-	188	-	59,176
Deposits	-	-	-	-	-	-	-	-	3,000	106,200	50,500	-	159,700
Escrow deposits	-	-	-	-	-	-	-	-	-	-	9,100,000	-	9,100,000
Reserves	-	-	-	-	-	-	-	-	-	-	18,977	-	18,977
Prepaid ground leases	-	-	10,798	-	212,381	-	-	-	-	-	-	-	223,179
Total Current Assets	6,357,053	38,308	370,904	235,740	1,264,693	406,039	134,720	204,368	158,704	800,414	11,125,955	(500,227)	20,596,671
Noncurrent Assets:													
Accounts receivable	349,304	-	-	-	-	-	-	-	-	-	-	(349,304)	-
Deposits	-	3,206	-	6,000	-	6,424	3,000	-	14,743	109	-	-	33,482
Note receivable	9,229,065	-	-	-	-	-	-	1,740,739	-	-	-	(10,969,804)	-
Interest receivable	82,529	-	-	-	-	-	-	17,552	-	-	-	(100,081)	-
Escrow deposits	-	-	19,804	5,535	53,138	-	-	-	-	-	98,009	-	176,486
Reserves	-	89,803	432,647	414,835	1,433,401	250,258	42,123	-	80,000	-	129,317	-	2,872,384
Investment in partnerships	(644,148)	-	-	-	-	-	-	-	-	-	518	694,275	50,645
Prepaid ground leases, less current portion	-	-	539,886	-	3,117,736	-	-	-	-	-	-	-	3,657,622
Property and equipment, net	18,250	5,054,308	3,230,316	7,434,752	29,313,731	19,058,028	2,164	-	10,836,448	12,639,859	657,418	(18,641,082)	69,604,192
Capitalized costs, net	-	-	-	15,031	63,241	-	-	-	5,100	-	-	-	83,372
Total Noncurrent Assets	9,035,000	5,147,317	4,222,653	7,876,153	33,981,247	19,314,710	47,287	1,758,291	10,936,291	12,639,968	885,262	(29,365,996)	76,478,183
TOTAL ASSETS	\$ 15,392,053	\$ 5,185,625	\$ 4,593,557	\$ 8,111,893	\$ 35,245,940	\$ 19,720,749	\$ 182,007	\$ 1,962,659	\$ 11,094,995	\$ 13,440,382	\$ 12,011,217	\$ (29,866,223)	\$ 97,074,854

San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

San Diego Housing Commission - Discretely Presented Component Units Consolidating Statement of Financial Position - Continued December 31, 2017

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	New Palace	HDP New Palace, LP	HDP Town & Country, LP	Other Consolidated Companies	Eliminations	Consolidated
Current Liabilities:													
Accounts payable and accrued expenses	\$ 51,381	\$ 15,213	\$ 26,713	\$ 30,440	\$ 70,590	\$ 26,703	\$ 16,072	\$ 7,500	\$ 30,807	\$ 79,490	\$ 44,170	\$ (906)	398,173
Construction costs payable	-	-	-	-	-	2,500	-	-	1,207,620	178,927	-	-	1,389,047
Accrued interest payable	-	-	13,287	15,042	64,169	-	-	-	7,858	58,406	-	-	158,762
Ground lease payable	-	-	-	-	-	37,524	18,302	-	-	-	-	-	55,826
Related party payables	124,882	32,669	22,500	23,440	20,627	149,370	10,000	10,000	105,495	404,800	228,178	(531,989)	599,972
Prepaid revenue	-	1,529	-	4,955	1,801	1,504	218	-	197	7,580	24,116	-	41,900
Tenant security deposits	-	9,100	22,279	24,999	47,237	61,000	16,500	-	16,075	72,133	63,199	-	332,522
Current portion of notes payable	-	23,000	70,596	53,877	245,961	-	-	-	-	-	99,366	-	492,800
Total Current Liabilities	176,263	81,511	155,375	152,753	450,385	278,601	61,092	17,500	1,368,052	801,336	459,029	(532,895)	3,469,002
Noncurrent Liabilities:													
Related party payables	16,703	316,635	-	-	-	180,384	-	-	-	-	-	(513,722)	-
Deferred grant revenue	10,000	-	-	-	-	9,164,988	-	-	-	-	2,562,137	(379,394)	11,357,731
Accrued interest payable	-	857,961	21,849	1,469,152	78,160	492,716	-	-	79,733	102,614	-	(100,081)	3,002,104
Notes payable, net	-	5,009,498	3,869,807	4,793,768	25,357,591	10,543,453	-	-	8,697,904	24,736,655	8,846,058	(10,789,420)	81,065,314
Total Noncurrent Liabilities	26,703	6,184,094	3,891,656	6,262,920	25,435,751	20,381,541	-	-	8,777,637	24,839,269	11,408,195	(11,782,617)	95,425,149
Total Liabilities	202,966	6,265,605	4,047,031	6,415,673	25,886,136	20,660,142	61,092	17,500	10,145,689	25,640,605	11,867,224	(12,315,512)	98,894,151
Non-Controlling Interest - Tax Credit Partnerships	-	-	546,542	1,696,264	9,360,097	-	-	-	949,310	1,673,009	19,437	-	14,244,659
Unrestricted Net Assets - Controlling Interest	15,189,087	(1,079,980)	(16)	(44)	(293)	(939,393)	120,915	1,945,159	(4)	(13,873,232)	124,556	(17,550,711)	(16,063,956)
TOTAL LIABILITIES AND NET ASSETS	\$ 15,392,053	\$ 5,185,625	\$ 4,593,557	\$ 8,111,893	\$ 35,245,940	\$ 19,720,749	\$ 182,007	\$ 1,962,659	\$ 11,094,995	\$ 13,440,382	\$ 12,011,217	\$ (29,866,223)	\$ 97,074,854

San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

San Diego Housing Commission - Discretely Presented Component Units Consolidating Statement of Activities For the Year Ended December 31, 2017

	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	New Palace	HDP New Palace, LP	HDP Town & Country, LP	Other Consolidated Companies	Eliminations	Consolidated
Revenue and Support:													
Rental income	\$ -	\$ 202,616	\$ 958,976	\$ 724,360	\$ 2,890,059	\$ 846,916	\$ 406,302	\$ 404,230	\$ 202,284	\$ 209,213	\$ 43,639	\$ -	\$ 6,888,595
Grant Revenue	-	1,754	-	-	-	354,817	-	-	-	-	-	(14,545)	342,026
Miscellaneous income	7,154	-	-	272	97,399	15,952	3,923	153	537	-	2,308	-	127,698
Management fees	111,650	-	-	-	-	-	-	-	-	-	70,300	(70,300)	111,650
Resident services	-	-	76,159	-	-	-	-	-	-	-	-	-	76,159
Note forgiveness	-	23,000	-	-	-	-	-	-	-	-	-	-	23,000
Interest Income	346,944	268	1,166	796	5,737	1,409	152	17,608	1	-	-	(362,424)	11,657
Share of income from partnerships	(888,302)	-	-	-	-	-	-	-	-	-	(483)	895,277	6,492
Developer fees	871,127	-	-	-	-	-	-	-	-	-	-	(871,127)	-
Gain on sale of property and equipment	-	-	-	-	-	-	-	2,247,178	-	-	-	(2,247,178)	-
Total Revenue and Support	<u>448,573</u>	<u>227,638</u>	<u>1,036,301</u>	<u>725,428</u>	<u>2,993,195</u>	<u>1,219,094</u>	<u>410,377</u>	<u>2,669,169</u>	<u>202,822</u>	<u>209,213</u>	<u>115,764</u>	<u>(2,670,297)</u>	<u>7,587,277</u>
Expenses:													
Program Services	<u>352,982</u>	<u>407,820</u>	<u>862,261</u>	<u>917,460</u>	<u>3,858,982</u>	<u>1,697,223</u>	<u>288,940</u>	<u>377,953</u>	<u>201,259</u>	<u>207,179</u>	<u>13,723</u>	<u>(344,871)</u>	<u>8,840,911</u>
Total Program Services	<u>352,982</u>	<u>407,820</u>	<u>862,261</u>	<u>917,460</u>	<u>3,858,982</u>	<u>1,697,223</u>	<u>288,940</u>	<u>377,953</u>	<u>201,259</u>	<u>207,179</u>	<u>13,723</u>	<u>(344,871)</u>	<u>8,840,911</u>
Supporting Services:													
Management and general	<u>638,316</u>	<u>40,298</u>	<u>121,985</u>	<u>84,378</u>	<u>227,378</u>	<u>111,311</u>	<u>51,535</u>	<u>50,934</u>	<u>41,143</u>	<u>20,175</u>	<u>52,816</u>	<u>(70,300)</u>	<u>1,369,969</u>
Total Supporting Services	<u>638,316</u>	<u>40,298</u>	<u>121,985</u>	<u>84,378</u>	<u>227,378</u>	<u>111,311</u>	<u>51,535</u>	<u>50,934</u>	<u>41,143</u>	<u>20,175</u>	<u>52,816</u>	<u>(70,300)</u>	<u>1,369,969</u>
Total Expenses	<u>991,298</u>	<u>448,118</u>	<u>984,246</u>	<u>1,001,838</u>	<u>4,086,360</u>	<u>1,808,534</u>	<u>340,475</u>	<u>428,887</u>	<u>242,402</u>	<u>227,354</u>	<u>66,539</u>	<u>(415,171)</u>	<u>10,210,880</u>
Change in Unrestricted Net Assets Before													
Loss Attributable to Non-Controlling Interest	(542,725)	(220,480)	52,055	(276,410)	(1,093,165)	(589,440)	69,902	2,240,282	(39,580)	(18,141)	49,225	(2,255,126)	(2,623,603)
Loss (Income) Attributable to Non-Controlling Interest	-	-	(52,050)	276,382	1,093,056	-	-	-	39,576	(84,469)	(5,173)	-	1,267,322
Change in Unrestricted Net Assets Before Contribution													
Distributions and Other Changes in Net Assets	(542,725)	(220,480)	5	(28)	(109)	(589,440)	69,902	2,240,282	(4)	(102,610)	44,052	(2,255,126)	(1,356,281)
Other Change in Net Assets - Contributions, Distributions, Adjustments and Acquisition through Seller Note Payable	-	-	(10)	-	-	-	(78,781)	-	-	(13,770,622)	(4,199)	78,212	(13,775,400)
Change in Net Assets	(542,725)	(220,480)	(5)	(28)	(109)	(589,440)	(8,879)	2,240,282	(4)	(13,873,232)	39,853	(2,176,914)	(15,131,681)
Net Assets (Deficit) at Beginning of Year	<u>15,731,812</u>	<u>(859,500)</u>	<u>(11)</u>	<u>(16)</u>	<u>(184)</u>	<u>(349,953)</u>	<u>129,794</u>	<u>(295,123)</u>	<u>-</u>	<u>-</u>	<u>84,703</u>	<u>(15,373,797)</u>	<u>(932,275)</u>
NET ASSETS (DEFICIT) AT END OF YEAR	<u>\$ 15,189,087</u>	<u>\$ (1,079,980)</u>	<u>\$ (16)</u>	<u>\$ (44)</u>	<u>\$ (293)</u>	<u>\$ (939,393)</u>	<u>\$ 120,915</u>	<u>\$ 1,945,159</u>	<u>\$ (4)</u>	<u>\$ (13,873,232)</u>	<u>\$ 124,556</u>	<u>\$ (17,550,711)</u>	<u>\$ (16,063,956)</u>



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

Note 19 - Discretely Presented Component Units (Continued)

HDP Note 1 - Organization and Significant Accounting Policies:

Organization

The consolidated financial statements include the following entities which are collectively referred to as the "Corporation".

Housing Development Partners of San Diego

Housing Development Partners of San Diego (HDP) is a California Nonprofit Corporation and a component unit of the San Diego Housing Commission (SDHC). HDP is a legally separate entity, however is, in substance, part of SDHC's operations. The management of SDHC has operational responsibility for the component unit; therefore the accounts of HDP have been included within the scope of the basic financial statements of SDHC. Its mission is to preserve and increase affordable housing opportunities for low and moderate income residents.

New Palace Hotel (New Palace) was purchased on January 12, 2016 by HDP to provide 80 units of affordable housing for low-income persons located in San Diego, California. New Palace was wholly-owned by HDP and sold to HDP New Palace, L.P. on August 31, 2017.

HDP oversees the management of over 1,500 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.



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

Note 19 - Discretely Presented Component Units (Continued)**HDP Note 1 - Organization and Significant Accounting Policies (Continued):**

HDP has an interest in the following entities at December 31, 2017:

Entity	HDP Direct Ownership	HDP Indirect Ownership
Casa Colina, L.P. (Casa Colina)	0.01%	
HDP Mason Housing Corporation (HDP Mason)	N/A	
Logan Development Management LLC	79.00%	
Logan Development II, L.P. (Logan)		0.01%
HDP Parker Kier, LLC (HDP Parker Kier)	100.00%	
HDP Churchill, LLC	100.00%	
HDP Churchill, L.P. (HDP Churchill)	99.99%	0.01%
HDP Broadway, L.P. (HDP Broadway)		0.01%
HDP Broadway Management, LLC	79.00%	
HDP Island Village, LLC	100.00%	
HDP Town & Country, LLC	100.00%	
HDP New Palace Management, LLC	79.00%	
HDP Town & Country LP (HDP Town & Country)		0.005%
HDP New Palace, L.P. (HDP New Palace)		0.01%
HDP Village North, LLC	100.00%	
HDP Quality Inn, LLC	100.00%	
HDP West Park, L.P. (HDP West Park)	99.99%	0.01%
HDP West Park Management, LLC	100.00%	



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

Note 19 - Discretely Presented Component Units (Continued)

HDP Note 2 - Significant Accounting Policies

Consolidated Financial Statements

The consolidated financial statements of the Corporation include the accounts of HDP, HDP Mason, Casa Colina, Logan, HDP Broadway, HDP Churchill, HDP Parker Kier, HDP New Palace, HDP Town & Country, HDP West Park, Logan Development Management, LLC, HDP Broadway Management, LLC, HDP Churchill, LLC, HDP Island Village, LLC, HDP New Palace Management, LLC, HDP Village North, LLC, HDP West Park Management, LLC, HDP Quality Inn, LLC and HDP Town & Country, LLC. All material intercompany transactions have been eliminated in consolidation.

Accounting Method

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 (U.S. 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. Accordingly, the net assets of the Corporation and changes therein are classified and reported as follows:

- Unrestricted net assets – Net assets that are not subject to any donor-imposed stipulations
- Temporarily restricted net assets – Net assets subject to donor-imposed stipulations on their use that may be met either by actions of the Corporation and/or the passage of time.
- Permanently restricted net assets – Net assets subject to donor-imposed stipulations requiring that they be maintained permanently by the Corporation. Generally, the donors permit the Corporation to use all or part of the income earned for with general or donor-specified purposes. As of December 31, 2017, the Corporation had no permanently restricted net assets.



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

Note 19 - Discretely Presented Component Units (Continued)

HDP Note 2 - Significant Accounting Policies (Continued)

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.

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, 2017.

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, 2017.

Escrow Deposits

Escrow deposits are held by the mortgagor to be used for rehabilitation costs, fees, taxes and insurance and totaled \$9,276,486 at December 31, 2017.



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

Note 19 - Discretely Presented Component Units (Continued)**HDP Note 2 - Significant Accounting Policies (Continued)****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:

	<u>Years</u>
Buildings and Improvements	27.5 - 40
Furniture and Equipment	5 - 7
Furnishings	5

Depreciation expense totaled \$3,158,357 for the year ended December 31, 2017.

Interest totaling \$297,633 for the year ended December 31, 2017, was capitalized and is included in buildings and improvements.

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.



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

Note 19 - Discretely Presented Component Units (Continued)

HDP Note 2 - Significant Accounting Policies (Continued)

Impairment of Real Estate

The Corporation reviews its investment in real estate for impairment whenever events or 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 cash flows expected to be generated by the rental property including the low income housing tax credits 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 2017.

Amortization

Capitalized costs are amortized over the term of the tax-credit fees using the straight-line method. Amortization totaled \$10,722 for the year ended December 31, 2017.

Related Party Payables

Related party payables consist of staff charges payable to the Commission and Partners' fees for Casa Colina, Logan, HDP Broadway, HDP Town & Country and HDP Village North, LLC. Related party payables are non- interest bearing, due upon demand and totaled \$599,972 at December 31, 2017.

Prepaid Revenue

Laundry payments received in advance are classified as liabilities until earned. Advanced laundry payments are earned and recognized as revenue over the term of the laundry contract. Rental payments received in advance are deferred and classified as liabilities until earned.

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.



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

Note 19 - Discretely Presented Component Units (Continued)

HDP Note 2 - Significant Accounting Policies (Continued)

Tenant Security Deposits

Tenant security deposits are held in separate bank accounts in the name of HDP Mason, Casa Colina, Logan, HDP Broadway, HDP Churchill, HDP Parker Kier, HDP Town & Country, HDP New Palace and HDP Village North. These funds are restricted to the extent of the tenant security deposit liability totaling \$332,522 at December 31, 2017.

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 grants. Grant revenue is recognized in the consolidated statement of activities on a systematic basis over the useful life of the asset. Deferred grant revenue totaled \$11,357,731 at December 31, 2017.

Debt Issuance Costs

Debt issuance costs are incurred in order to obtain permanent financing for the Corporation. Debt issuance costs are amortized on a straight-line basis over the term of the related loan, which approximates the interest method. Unamortized deferred financing costs are presented as a direct reduction from the carrying value of the related obligation to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and totaled \$30,522 for the year ended December 31, 2017.

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, 2018

Note 19 - Discretely Presented Component Units (Continued)

HDP Note 2 - Significant Accounting Policies (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, 2017, 2016, 2015 and 2014 are subject to examination by the Internal Revenue Service and State taxing authorities, generally the three to four years after the returns were filed.

Casa Colina, Logan, HDP Broadway, HDP Churchill, HDP New Palace, HDP Town & Country and HDP West Park were formed as limited partnerships, HDP Parker Kier, Logan Development Management, LLC, HDP Broadway Management, LLC, HDP Churchill, LLC, HDP Island Village, LLC, HDP New Palace Management, LLC, HDP Village North, LLC, HDP West Park Management, LLC, HDP Quality Inn, LLC and HDP Town & Country, LLC were established as a limited liability companies under the laws of the State of California. Casa Colina, Logan, HDP Broadway, HDP Churchill, HDP New Palace, HDP Town & Country, HDP West Park, HDP Parker Kier, Logan Development Management, LLC, HDP Broadway Management, LLC, HDP Churchill, LLC, HDP Island Village, LLC, HDP New Palace Management, LLC, HDP Village North, LLC, HDP West Park Management, LLC, HDP Quality Inn, LLC and HDP Town & Country, 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, HDP New Palace, HDP Town & Country, HDP West Park, Logan Development Management, LLC, HDP Broadway Management, LLC, HDP Churchill, LLC, HDP Island Village, LLC, HDP New Palace Management, LLC, HDP Village North, LLC, HDP West Park Management, LLC, HDP Quality Inn, LLC and HDP Town & Country, LLC's tax returns for the years ended December 31, 2017, 2016, 2015 and 2014 are subject to examination by the Internal Revenue Service and State taxing authorities, generally the three to four years after the returns were filed.



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

Note 19 - Discretely Presented Component Units (Continued)

HDP Note 2 - Significant Accounting Policies (Continued)

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.

The Corporation's operations are concentrated in the multi-family real estate market. In addition, the Corporation operate in a heavily regulated environment. The operations of the Corporation 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. Certificates of deposit may be redeemed without significant penalty and are considered cash and cash equivalents, regardless of maturity. Cash is defined as cash in demand deposit accounts as well as cash on hand. Not included as cash are funds restricted as to their use, regardless of liquidity, such as escrow deposits, replacements reserves, operating reserves, operating expense reserves, and tenant security deposits. The Corporation occasionally maintains cash on deposit at a bank in excess of the Federal Deposit Insurance Corporation limit. The Corporation has not experienced any losses in such accounts.



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

Note 19 - Discretely Presented Component Units (Continued)**HDP Note 2 - Significant Accounting Policies (Continued)****Subsequent Events**

In preparing these consolidated financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through July 9, 2018, the date the consolidated financial statements were available to be issued.

HDP Note 3 - Accounts Receivable:

Accounts receivable consist of the following at December 31, 2017:

Related Parties:

East Village West, L.P.	\$	37,500
Studio 15 Housing Partners, L.P.		28,753
Dawson Avenue Senior Apartments, LP		15,661
Subtotal	\$	<u>81,914</u>

Other:

Rent receivable	\$	169,501
HDP and HDP Churchill property tax		27,277
HDP Broadway issuer fee		22,281
Resident services		22,158
HDP Parker Kier administrative fee		9,625
Other receivables		2,459
Subtotal	\$	<u>253,301</u>

Total Accounts Receivable	\$	<u>335,215</u>
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San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

Note 19 - Discretely Presented Component Units (Continued)**HDP Note 4 - 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, 2017:

Dawson Avenue Senior Apartment, L.P. (.01%)	\$	51,372
East Village West, L.P. (.04%)		849
Studio 15 Housing Partners, L.P. (.01%)		(1,576)
Total Investment in Partnerships	\$	<u>50,645</u>

The Corporation provided management services to these and other entities for which it earned the following amounts for the year ended December 31, 2017:

Other management fees	\$	74,625
Studio 15 Housing Partners, L.P.		21,053
Dawson Avenue Senior Apartment, L.P.		15,972
Total Management Fees	\$	<u>111,650</u>

HDP Note 5 - Property and Equipment:

Property and equipment consist of the following at December 31, 2017:

Land	\$	2,914,433
Buildings and improvements		69,286,742
Furniture and equipment		410,606
Furnishings		792,123
Construction in progress		<u>6,512,650</u>
Subtotal		79,916,554
Less: Accumulated depreciation		<u>(10,312,362)</u>
Property and Equipment, Net	\$	<u>69,604,192</u>



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

Note 19 - Discretely Presented Component Units (Continued)

HDP Note 6 - Capitalized Costs:

Capitalized costs consist of the following at December 31, 2017:

Tax credit fees	\$	112,314
Less: Accumulated amortization		<u>(28,942)</u>
Capitalized Costs, Net	\$	<u><u>83,372</u></u>



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

Note 19 - Discretely Presented Component Units (Continued)

HDP Note 7 - Notes Payable:

Notes payable consist of the following at December 31, 2017:

Type of Obligation	Interest Rate	Maturity Date	Balance 12/31/2016	Additions	Payments	Balance 12/31/2017	Due within one year
HDP Mason Housing Corporation:	3.00%	2068	\$ 2,365,283	\$ -	\$ -	\$ 2,365,283	\$ -
San Diego Housing Commission	5.00%	2057	1,318,964	-	-	1,318,964	-
Civic San Diego	3.00%	2066	1,180,727	-	-	1,180,727	-
California Housing Finance Agency	3.00%	2057	68,858	-	-	68,858	-
San Diego Housing Commission	0.00%	2023	138,000	-	23,000	115,000	23,000
San Diego Housing Commission - Debt Forgiveness			(16,667)	333	-	(16,334)	-
Less: Unamortized debt issuance costs						-	-
Casa Colina, L.P.:							
Red Mortgage Capital, Inc.	5.68%	2039	2,873,761	-	66,707	2,807,054	70,596
San Diego Housing Commission	3.00%	2059	1,476,427	-	66,466	1,409,961	-
Less: Unamortized debt issuance costs			(289,681)	13,069	-	(276,612)	-
Logan Development II, L.P.:							
Housing Authority of the City of San Diego/serviced by JP Morgan Chase, N.A.	5.58%	2032	3,181,344	-	50,921	3,130,423	53,877
San Diego Housing Commission	6.00%	2050	1,400,000	-	-	1,400,000	-
Civic San Diego	3.00%	2050	150,000	-	-	150,000	-
Less: Unamortized debt issuance costs			(137,220)	5,082	-	(132,138)	-
HDP Broadway, L.P.:							
Housing Authority of the City of San Diego/serviced by Berkadia Commercial Mortgage	4.49%	2044	17,385,108	-	235,182	17,149,926	245,961
Less: Unamortized debt issuance costs			(306,647)	10,952	-	(295,695)	-
HDP Churchill, L.P.:							
San Diego Housing Commission	3.00%	2071	3,651,390	61,222	-	3,712,612	-
Civic San Diego	3.00%	2070	2,704,000	260,250	-	2,964,250	-
California Housing Finance Agency	3.00%	2070	1,800,000	-	-	1,800,000	-
San Diego Housing Commission	3.00%	2071	663,179	1,461,633	-	2,124,812	-
Less: Unamortized debt issuance costs			(59,307)	1,086	-	(58,221)	-
HDP New Palace, L.P.:							
Housing Authority of the City of San Diego/serviced by Citibank	4.42%	2050	-	2,106,750	-	2,106,750	-
San Diego Housing Commission	4.00%	2073	-	2,945,000	-	2,945,000	-
California Housing Finance Agency	3.00%	2072	-	2,240,000	-	2,240,000	-
Less: Unamortized debt issuance costs			-	-	334,585	(334,585)	-
HDP Town & Country L.P.:							
Housing Authority of the City of San Diego/serviced by Citibank	4.54%	2057	-	11,486,655	-	11,486,655	-
San Diego Housing Commission	6.80%	2073	-	13,250,000	-	13,250,000	-
HDP Village North, LLC:							
Red Mortgage Capital, LLC	4.54%	2033	-	9,100,000	-	9,100,000	99,366
Less: Unamortized debt issuance costs			-	-	154,576	(154,576)	-
Housing Development Partners (New Palace Hotel):							
Local Initiative Support Corporation	2.6% to 6.0%	2017	5,200,000	-	5,200,000	-	-
Local Initiative Support Corporation	5.25%	2017	599,261	-	599,261	-	-
			<u>\$ 45,346,780</u>	<u>\$ 42,942,032</u>	<u>\$ 6,730,698</u>	<u>\$ 81,558,114</u>	<u>\$ 492,800</u>



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

Note 19 - Discretely Presented Component Units (Continued)**HDP Note 7 - Notes Payable (Continued)**

Debt issuance costs total \$1,505,669, less accumulated amortization of \$237,508 at December 31, 2017.

The future principal payments on the notes payable are as follows:

	Years Ended December 31
2018	\$ 492,800
2019	525,164
2020	761,078
2021	802,469
2022	840,162
Thereafter	79,404,602
Total Notes Payable	82,826,275
Less: Unamortized debt issuance costs	(1,268,161)
Total Notes Payable, Net	<u>\$ 81,558,114</u>

HDP Note 8 - Ground Leases:

Ground leases consist of the following at December 31, 2017:

Entity	Lease Commencement	Term	Ground Lease Expense	Prepaid Ground Lease		Ground Lease Payable
				Short-Term	Long-Term	
Casa Colina, LP	2004	65 Years	\$ 32,020	\$ 10,798	\$ 539,886	\$ -
HDP Parker Kier, LLC	2013	10 Years	18,302	-	-	18,302
HDP Broadway, LP	2014	65 Years	383,461	212,381	3,117,736	-
HDP Churchill, LP	2015	65 Years	37,524	-	-	37,524
HDP West Park, LP	2017	65 Years	-	-	-	-
HDP Village North, LLC	2017	65 Years	-	-	-	-
HDP Quality Inn, LLC	2017	65 Years	-	-	-	-
			<u>\$ 471,307</u>	<u>\$ 223,179</u>	<u>\$ 3,657,622</u>	<u>\$ 55,826</u>



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

Note 19 - Discretely Presented Component Units (Continued)**HDP Note 9 - Unrestricted Net Position, Non - Controlling Interest:**

The following is a reconciliation of the changes in partners' equity of Casa Colina, Logan, HDP Broadway, HDP New Palace, and HDP Town and Country 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, 2017:

Casa Colina

	HDP General Partner	Non-Controlling Interest Limited Partner
Partners' Equity, at Beginning of Year	\$ (11)	\$ 594,871
Partner distributions	(10)	(100,379)
Net income	5	52,050
Partners' Equity, at End of Year	<u>\$ (16)</u>	<u>\$ 546,542</u>

Logan

	Logan Development Management, LLC General Partner	Non-Controlling Interest Limited Partner
Partners' Equity, at Beginning of Year	\$ (16)	\$ 1,972,646
Net loss	(28)	(276,382)
Partners' Equity, at End of Year	<u>\$ (44)</u>	<u>\$ 1,696,264</u>



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

Note 19 - Discretely Presented Component Units (Continued)**HDP Note 9 - Unrestricted Net Position, Non - Controlling Interest (continued)****HDP Broadway**

	HDP Broadway Management, LLC General Partner	Non-Controlling Interest Limited Partner
Partners' Equity, at Beginning of Year	\$ (184)	\$ 9,543,994
Partner contributions	-	909,159
Net Loss	(109)	(1,093,056)
Partners' Equity, at End of Year	<u>\$ (293)</u>	<u>\$ 9,360,097</u>

HDP New Palace

	HDP New Palace Management, LLC General Partner	Non-Controlling Interest Limited Partner
Partners' Equity, at Beginning of Year	\$ -	\$ -
Partner contributions	-	1,038,886
Syndication costs	-	(50,000)
Net Loss	(4)	(39,576)
Partners' Equity, at End of Year	<u>\$ (4)</u>	<u>\$ 949,310</u>



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

Note 19 - Discretely Presented Component Units (Continued)**HDP Note 9 - Unrestricted Net Position, Non - Controlling Interest (continued)****HDP Town & Country**

	HDP Town and Country Management, LLC General Partner	Non-Controlling Interest Limited Partner	Non-Controlling Interest General Partner
Partners' Equity, at Beginning of Year	\$ -	\$ -	\$ -
Partner contributions	100	1,588,440	100
Net income	4	84,465	4
Other changes in equity - Acquisition costs in excess of carryover basis	(13,873,336)	-	-
Partners' Equity, at End of Year	<u>\$ (13,873,232)</u>	<u>\$ 1,672,905</u>	<u>\$ 104</u>

Logan Development Management, LLC

	HDP Managing Member	Non-Controlling Interest Non-Managing Member
Partners' Equity, at Beginning of Year	\$ 42,274	\$ 11,111
Net loss	10,483	2,786
Partners' Equity, at End of Year	<u>\$ 52,757</u>	<u>\$ 13,897</u>



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

Note 19 - Discretely Presented Component Units (Continued)**HDP Note 9 - Unrestricted Net Position, Non - Controlling Interest (continued)****HDP Broadway Management, LLC**

	HDP Managing Member	Non-Controlling Interest Non-Managing Member
Members' Equity, at Beginning of Year	\$ 25,249	\$ -
Member contribution	-	21
Member distribution	-	(2,191)
Other changes in equity	(5,302)	5,302
Net income	10,185	2,708
Partners' Equity, at End of Year	<u>\$ 30,132</u>	<u>\$ 5,840</u>

HDP New Palace Management, LLC

	HDP Managing Member	Non-Controlling Interest Non-Managing Member
Members' Equity, at Beginning of Year	\$ (1,323)	\$ -
Member contribution	79	21
Net income	(1,209)	(321)
Partners' Equity, at End of Year	<u>\$ (2,453)</u>	<u>\$ (300)</u>



San Diego Housing Commission

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

Note 19 - Discretely Presented Component Units (Continued)

Note 10 – Net Assets

Temporarily Restricted Net Assets

The Corporation's temporarily restricted net assets totaled \$2,891,361 for the year ended December, 31 2017 and consist of required deposits to replacement and operating reserves pursuant to regulatory and loan agreements. Of the total amount, \$147,183 is held by the Corporation and \$2,744,178 is in lender held accounts. The regulatory and loan agreements dictate restrictions as to timing and use of the reserves.

Unrestricted Net Assets

The Corporation's unrestricted net assets totaled \$(5,602,703) at December 31, 2017.

Note 20 - Subsequent Events

Events that occur after the statement of net position 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 statement of net position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of net position date require disclosure in the accompanying notes. Management evaluated the activity of SDHC through November 5, 2018, 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.



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 31, 2018, more than 400 volunteers and 90 service provider booths offered services to 845 homeless individuals and families.

Services included flu shots and Hepatitis A vaccines; haircuts; dental and health exams; employment and housing assistance; and identification cards from the California Department of Motor Vehicles. In addition, child care and veterinary care were available, and attendees also received donated hygiene kits, blankets, clothing, and shoes.





San Diego Housing Commission
COMBINING SCHEDULE OF NET POSITION - ENTERPRISE FUNDS
June 30, 2018
(Dollars in Thousands)

	Business activities	Federal funds	State funds	Eliminations	Primary Government
<u>Assets</u>					
Current assets					
Cash and cash equivalents	\$ 31,992	\$ -	\$ -	\$ -	\$ 31,992
Restricted cash and cash equivalents	3,493	331	-	-	3,824
Short-term investments	27,521	11,505	203	-	39,229
Accounts receivable - tenants, net	96	173	-	-	269
Accounts receivable - funding sources	9,382	6,079	-	(521)	14,940
Accounts receivable - other	2,697	175	-	-	2,872
Notes and mortgages receivable, current portion	1,134	40	-	-	1,174
Accrued interest receivable - investments	165	28	1	-	194
Prepaid items and other assets	2,880	3	-	-	\$ 2,883
Total current assets	79,360	18,334	204	(521)	97,377
Noncurrent assets					
Long-term investments	60,632	10,459	217	-	71,308
Accrued interest receivable - notes and mortgages receivable	20,225	23,584	1,446	-	45,255
Notes and mortgages receivable, net of allowance for loan losses	131,159	186,990	9,940	-	328,089
Other assets	149	-	-	-	149
Capital assets not being depreciated	67,946	3,013	-	-	70,959
Capital assets, net of accumulated depreciation	120,587	20,259	-	-	140,846
Total noncurrent assets	400,698	244,305	11,603	-	656,606
Total assets	<u>\$ 480,058</u>	<u>\$ 262,639</u>	<u>\$ 11,807</u>	<u>\$ (521)</u>	<u>\$ 753,983</u>



San Diego Housing Commission
COMBINING SCHEDULE OF NET POSITION - ENTERPRISE FUNDS - CONTINUED
June 30, 2018
(Dollars in Thousands)

Liabilities

Current liabilities					
Accounts payable	\$ 6,679	\$ 3,590	\$ -	\$ (521)	\$ 9,748
Accounts payable - funding sources	2	446	-	-	448
Accrued payroll and benefits	1,028	360	-	-	1,388
Accrued compensated absences	2,352	-	-	-	2,352
Accrued interest payable	405	19	-	-	424
Notes payable, current portion	2,696	-	-	-	2,696
Deposits payable	1,688	89	-	-	1,777
Unearned revenue	1,289	1,075	-	-	2,364
Other current liabilities	18	-	-	-	18
	<u>16,157</u>	<u>5,579</u>	<u>-</u>	<u>(521)</u>	<u>21,215</u>
Total current liabilities					
Noncurrent liabilities					
Accrued interest payable - noncurrent	198	584	-	-	782
Notes payable noncurrent, net	96,118	4,555	-	-	100,673
Other liabilities	-	331	-	-	331
Total noncurrent liabilities	<u>96,316</u>	<u>5,470</u>	<u>-</u>	<u>-</u>	<u>101,786</u>
Total liabilities	<u>112,473</u>	<u>11,049</u>	<u>-</u>	<u>(521)</u>	<u>123,001</u>

Net Position

Net investment in capital assets	88,582	18,717	-	-	107,299
Restricted					
HOME notes receivable reserve	-	181,021	-	-	181,021
NSP notes receivable reserve	-	7,068	-	-	7,068
CDBG notes receivable reserve	-	5,228	-	-	5,228
Replacement reserves	2,768	967	-	-	3,735
VASH and FUP housing assistance reserves	-	2,330	-	-	2,330
Unrestricted	<u>276,235</u>	<u>36,259</u>	<u>11,807</u>	<u>-</u>	<u>324,301</u>
Total net position	<u>367,585</u>	<u>251,590</u>	<u>11,807</u>	<u>-</u>	<u>630,982</u>
Total liabilities and net position	<u>\$ 480,058</u>	<u>\$ 262,639</u>	<u>\$ 11,807</u>	<u>\$ (521)</u>	<u>\$ 753,983</u>



San Diego Housing Commission
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - ENTERPRISE FUNDS
Year ended June 30, 2018
(Dollars in Thousands)

	Business activities	Federal funds	State funds	Eliminations	Primary Government
Operating revenues					
Dwelling rental income	\$ 30,054	\$ 1,022	\$ -	\$ (15)	\$ 31,061
Land lease and other rental income	2,522	79	-	-	2,601
Fee revenue	5,158	-	-	(944)	4,214
Other revenue	3,738	2,562	10	(33)	6,277
Total operating revenues	<u>41,472</u>	<u>3,663</u>	<u>10</u>	<u>(992)</u>	<u>44,153</u>
Operating expenses					
Administrative expenses	18,939	19,057	17	(987)	37,026
Tenant services	612	1,932	-	-	2,544
Asset management	17,225	3,063	-	-	20,288
General expenses	2,361	781	(82)	-	3,060
Grant expense	14,996	5,328	114	(5)	20,433
Housing assistance	1,072	148,619	-	-	149,691
Depreciation	6,159	1,056	-	-	7,215
Total operating expenses	<u>61,364</u>	<u>179,836</u>	<u>49</u>	<u>(992)</u>	<u>240,257</u>
Net operating loss	<u>\$ (19,892)</u>	<u>\$ (176,173)</u>	<u>\$ (39)</u>	<u>\$ -</u>	<u>\$ (196,104)</u>



San Diego Housing Commission
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - ENTERPRISE FUNDS - CONTINUED
Year ended June 30, 2018
(Dollars in Thousands)

	Business activities	Federal funds	State funds	Eliminations	Primary Government
Nonoperating revenues (expenses)					
Grant revenue	\$ 25,895	\$ 214,407	\$ 240	\$ -	\$ 240,542
Interest income on investments and notes receivable	5,168	5,553	248	-	10,969
Interest expense	(5,059)	(137)	-	-	(5,196)
Gain on sale of capital assets	3	-	-	-	3
Total nonoperating revenues (expenses)	26,007	219,823	488	-	246,318
Change in net position before capital transactions	6,115	43,650	449	-	50,214
Gain on sale of property to component unit	13,681	-	-	-	13,681
Net income before operating transfers	19,796	43,650	449	-	63,895
Operating transfers in	21,592	201,878	16	-	223,486
Operating transfers out	(1,391)	(222,095)	-	-	(223,486)
Change in net position	39,997	23,433	465	-	63,895
Net position - beginning of year	343,628	228,156	11,341	(16,038)	567,087
Net position - end of year	\$ 383,625	\$ 251,589	\$ 11,806	\$ (16,038)	\$ 630,982



San Diego Housing Commission
COMBINING SCHEDULE OF CASH FLOWS - ENTERPRISE FUNDS
Year ended June 30, 2018
(Dollars in Thousands)

	Business activities	Federal funds	State funds	Primary Government
Cash flows from operating activities				
Cash received from tenants	\$ 36,794	\$ 6,542	\$ 10	\$ 43,346
Cash payments to suppliers for operations	(42,465)	(157,209)	(121)	(199,795)
Cash payments for general and administrative expenses	(14,609)	(23,578)	(159)	(38,346)
Net cash used for operating activities	(20,280)	(174,245)	(270)	(194,795)
Cash flows from capital and related financing activities				
Principal paid on notes payable	(3,080)	-	-	(3,080)
Acquisition and construction of capital assets	(22,705)	(7,245)	-	(29,950)
Sale of capital assets	10,733			10,733
Proceeds from additional borrowings	4,169	-	-	4,169
Interest payments	(4,994)	(19)	-	(5,013)
Net cash used for capital and related financing activities	(15,877)	(7,264)	-	(23,141)
Cash flows from noncapital financing activities				
Cash received from grants	21,361	213,300	254	234,915
Transfers in (out)	20,201	(20,217)	16	-
Net cash provided by noncapital financing activities	41,562	193,083	270	234,915



San Diego Housing Commission
COMBINING SCHEDULE OF CASH FLOWS - ENTERPRISE FUNDS - CONTINUED
Year ended June 30, 2018
(Dollars in Thousands)

	Business activities	Federal funds	State funds	Primary Government
Cash flows from investing activities				
Interest on investments and notes receivable	2,878	3,594	109	6,581
Collection of notes receivable	2,799	6,485	376	9,660
Cash loaned on notes receivable	(20,575)	(21,885)	(488)	(42,948)
Purchases of investments	(24,363)	(8,897)	(168)	(33,428)
Proceeds from sale of investments	43,090	8,894	171	52,155
Net cash provided by (used for) investing activities	3,829	(11,809)	-	(7,980)
Net increase (decrease) in cash and cash equivalents	9,234	(235)	-	8,999
Cash and cash equivalents				
Beginning of year	26,251	566	-	26,817
End of year	<u>\$ 35,485</u>	<u>\$ 331</u>	<u>\$ -</u>	<u>\$ 35,816</u>
Financial statement presentation				
Cash and cash equivalents				\$ 31,992
Restricted cash and cash equivalents				3,824
Total cash and cash equivalents				<u>\$ 35,816</u>



San Diego Housing Commission
COMBINING SCHEDULE OF CASH FLOWS - ENTERPRISE FUNDS - CONTINUED
Year ended June 30, 2018
(Dollars in Thousands)

	<u>Business activities</u>	<u>Federal funds</u>	<u>State funds</u>	<u>Primary Government</u>
Reconciliation of operating loss to net cash used for operating activities				
Operating loss	\$ (19,893)	\$ (176,173)	\$ (38)	\$ (196,104)
Adjustments to reconcile operating loss to net cash used for operating activities:				
Depreciation	6,159	1,056	-	7,215
Amortization	134	-	-	134
Allowance for Accounts Recievable	(11)	23	-	12
Provision for loan losses	3	517	(99)	421
Allowance for forgiveable loans	(115)	15	114	14
Changes in operating assets and liabilities:				
Decrease (increase) in tenant receivables	70	(89)	-	(19)
Decrease (increase) in other receivables	(334)	1,702	-	1,368
Decrease (increase) in prepaid items and other assets	(1,500)	(3)	-	(1,503)
Increase (decrease) in accounts payable	(4,111)	2,438	(7)	(1,680)
Increase (decrease) in accrued payroll and benefits	273	(4)	-	269
Increase (decrease) in deposits payable	(715)	2	-	(713)
Increase (decrease) in unearned revenues	(229)	(3,581)	(240)	(4,050)
Increase (decrease) in other liabilities	(11)	(148)	-	(159)
Net cash used for operating activities	<u>\$ (20,280)</u>	<u>\$ (174,245)</u>	<u>\$ (270)</u>	<u>\$ (194,795)</u>
Supplemental Disclosure of Cash Flow Information:				
Noncash Investing Activities:				
Increase in notes receivable included in gain on sale of asset to an affiliate	<u>\$ 13,250</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,250</u>

FINANCIAL DATA SCHEDULE

San Diego Housing Commission (CA063)
San Diego, California
Entity Wide Balance Sheet Summary
Fiscal Year End: 06/30/2018

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	14.870 Resident Opportunity and Supportive Services	6.1 Component Unit Discretely Presented	6.2 Component Unit Blended	14.880 Family Unification Program (FUP)
111 Cash - Unrestricted		\$0								\$10,309,975	\$4,309,260	
112 Cash - Restricted - Modernization and Development		\$0										
113 Cash - Other Restricted		\$0								\$3,261,029	\$2,419,799	
114 Cash - Tenant Security Deposits		\$0								\$390,450	\$725,106	
115 Cash - Restricted for Payment of Current Liabilities		\$0										\$8,524
100 Total Cash	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$13,961,454	\$7,454,165	\$8,524
121 Accounts Receivable - PHA Projects		\$0										
122 Accounts Receivable - HUD Other Projects		\$0								\$62,127		
124 Accounts Receivable - Other Government	\$915,427	\$0	\$722,385				\$57,587		\$13,351	\$49,434		
125 Accounts Receivable - Miscellaneous	\$1,214	\$0	\$2,272				\$0			\$149,976	\$61,644	\$0
126 Accounts Receivable - Tenants	\$13,936	\$0								\$73,679	\$33,962	\$14,157
126.1 Allowance for Doubtful Accounts - Tenants	-\$1,977	\$0								\$0	-\$4,883	\$0
126.2 Allowance for Doubtful Accounts - Other	\$0	\$0	\$0				\$0		\$0	\$0	\$0	\$0
127 Notes, Loans, & Mortgages Receivable - Current		\$0					\$39,880					
128 Fraud Recovery		\$0										
128.1 Allowance for Doubtful Accounts - Fraud		\$0										
129 Accrued Interest Receivable	\$12,308	\$0					\$1,046,729					\$434
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$940,908	\$0	\$724,657	\$0	\$0	\$0	\$1,144,196	\$0	\$13,351	\$335,216	\$90,723	\$14,591
131 Investments - Unrestricted	\$8,777,134	\$0					\$2,558,480		\$0	\$50,646		\$309,196
132 Investments - Restricted		\$0										
135 Investments - Restricted for Payment of Current Liability		\$0										
142 Prepaid Expenses and Other Assets	\$3,251	\$0								\$9,382,355	\$287,999	
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	\$9,721,293	\$0	\$724,657	\$0	\$0	\$0	\$3,702,676	\$0	\$13,351	\$23,729,671	\$7,832,887	\$332,311
161 Land	\$2,812,099	\$0								\$2,914,433	\$19,684,285	
162 Buildings	\$20,170,000	\$0								\$69,620,009	\$47,072,007	
163 Furniture, Equipment & Machinery - Dwellings		\$0								\$1,743,314	\$79,811	
164 Furniture, Equipment & Machinery - Administration		\$0										
165 Leasehold Improvements		\$0								\$10,863		
166 Accumulated Depreciation	-\$5,131,792	\$0								-\$10,312,362	-\$12,102,184	
167 Construction in Progress	\$200,452	\$0								\$5,627,936	\$81,814	
168 Infrastructure		\$0										
160 Total Capital Assets, Net of Accumulated Depreciation	\$18,050,759	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$69,604,193	\$54,815,733	\$0
171 Notes, Loans and Mortgages Receivable - Non-Current		\$0					\$14,181,810					
172 Notes, Loans, & Mortgages Receivable - Non Current - Past Due		\$0										
173 Grants Receivable - Non Current		\$0										
174 Other Assets		\$0								\$3,740,994		
176 Investments in Joint Ventures		\$0										
180 Total Non-Current Assets	\$18,050,759	\$0	\$0	\$0	\$0	\$0	\$14,181,810	\$0	\$0	\$73,345,187	\$54,815,733	\$0
200 Deferred Outflow of Resources		\$0	\$0									

San Diego Housing Commission (CA063)
San Diego, California
Entity Wide Balance Sheet Summary
Fiscal Year End: 06/30/2018

Submission Type: Audited/Single Audit

	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	8 Other Federal Program 1	9 Other Federal Program 2	2 State/Local	1 Business Activities	14.856 Lower Income Housing Assistance Program_Section 8 Moderate	Subtotal	ELIM	Total
111 Cash - Unrestricted								\$27,682,778	\$0	\$42,302,013		\$42,302,013
112 Cash - Restricted - Modernization and Development									\$0	\$0		\$0
113 Cash - Other Restricted		\$322,277						\$348,066	\$0	\$6,351,171		\$6,351,171
114 Cash - Tenant Security Deposits									\$0	\$1,115,556		\$1,115,556
115 Cash - Restricted for Payment of Current Liabilities									\$0	\$8,524		\$8,524
100 Total Cash	\$0	\$322,277	\$0	\$0	\$0	\$0	\$0	\$28,030,844	\$0	\$49,777,264	\$0	\$49,777,264
121 Accounts Receivable - PHA Projects		\$145,742						\$0	\$0	\$145,742		\$145,742
122 Accounts Receivable - HUD Other Projects		\$0							\$0	\$62,127		\$62,127
124 Accounts Receivable - Other Government	\$380,291		\$3,963,963					\$8,861,307	\$25,655	\$14,989,400		\$14,989,400
125 Accounts Receivable - Miscellaneous	\$0	\$32,084	\$2,600				\$0	\$3,568,939	\$814	\$3,819,543	-\$521,337	\$3,298,206
126 Accounts Receivable - Tenants		\$146,873			\$0			\$63,891	\$0	\$346,498		\$346,498
126.1 Allowance for Doubtful Accounts - Tenants	\$0	\$0			\$0		\$0	-\$7,667	\$0	-\$14,527		-\$14,527
126.2 Allowance for Doubtful Accounts - Other	\$0	-\$9,467	\$0	\$0	\$0		\$0	-\$401,936	\$0	-\$411,403		-\$411,403
127 Notes, Loans, & Mortgages Receivable - Current			\$0					\$1,134,264	\$0	\$1,174,144		\$1,174,144
128 Fraud Recovery		\$156,980							\$0	\$156,980		\$156,980
128.1 Allowance for Doubtful Accounts - Fraud		-\$156,980							\$0	-\$156,980		-\$156,980
129 Accrued Interest Receivable		\$12,144	\$22,540,974				\$1,446,537	\$20,389,798	\$190	\$45,449,114		\$45,449,114
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$380,291	\$327,376	\$26,507,537	\$0	\$0	\$0	\$1,446,537	\$33,608,596	\$26,659	\$65,560,638	-\$521,337	\$65,039,301
131 Investments - Unrestricted		\$10,067,657	\$97,223	\$1	\$0	\$21,625	\$420,032	\$88,153,283	\$131,961	\$110,587,238		\$110,587,238
132 Investments - Restricted									\$0	\$0		\$0
135 Investments - Restricted for Payment of Current Liability									\$0	\$0		\$0
142 Prepaid Expenses and Other Assets								\$2,591,878	\$0	\$12,265,483		\$12,265,483
143 Inventories									\$0	\$0		\$0
143.1 Allowance for Obsolete Inventories									\$0	\$0		\$0
144 Inter Program Due From									\$0	\$0		\$0
145 Assets Held for Sale									\$0	\$0		\$0
150 Total Current Assets	\$380,291	\$10,717,310	\$26,604,760	\$1	\$0	\$21,625	\$1,866,569	\$152,384,601	\$158,620	\$238,190,623	-\$521,337	\$237,669,286
161 Land								\$47,583,784	\$0	\$72,994,601		\$72,994,601
162 Buildings		\$5,250,178						\$112,949,079	\$0	\$255,061,273		\$255,061,273
163 Furniture, Equipment & Machinery - Dwellings								\$530,409	\$0	\$2,353,534		\$2,353,534
164 Furniture, Equipment & Machinery - Administration								\$4,138,786	\$0	\$4,138,786		\$4,138,786
165 Leasehold Improvements									\$0	\$10,863		\$10,863
166 Accumulated Depreciation		-\$29,168						-\$32,080,644	\$0	-\$59,656,150		-\$59,656,150
167 Construction in Progress								\$597,024	\$0	\$6,507,226		\$6,507,226
168 Infrastructure									\$0	\$0		\$0
160 Total Capital Assets, Net of Accumulated Depreciation	\$0	\$5,221,010	\$0	\$0	\$0	\$0	\$0	\$133,718,438	\$0	\$281,410,133	\$0	\$281,410,133
171 Notes, Loans and Mortgages Receivable - Non-Current			\$172,808,371				\$9,940,207	\$131,158,688	\$0	\$328,089,076		\$328,089,076
172 Notes, Loans, & Mortgages Receivable - Non Current - Past Due									\$0	\$0		\$0
173 Grants Receivable - Non Current									\$0	\$0		\$0
174 Other Assets								\$148,919	\$0	\$3,889,913		\$3,889,913
176 Investments in Joint Ventures								\$16,037,985	\$0	\$16,037,985	-\$16,037,985	\$0
180 Total Non-Current Assets	\$0	\$5,221,010	\$172,808,371	\$0	\$0	\$0	\$9,940,207	\$281,064,030	\$0	\$629,427,107	-\$16,037,985	\$613,389,122
200 Deferred Outflow of Resources									\$0	\$0		\$0

San Diego Housing Commission (CA063)
San Diego, California
Entity Wide Balance Sheet Summary
Fiscal Year End: 06/30/2018

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	14.870 Resident Opportunity and Supportive Services	6.1 Component Unit Discretely Presented	6.2 Component Unit Blended	14.880 Family Unification Program (FUP)
290 Total Assets and Deferred Outflow of Resources	\$27,772,052	\$0	\$724,657	\$0	\$0	\$0	\$17,884,486	\$0	\$13,351	\$97,074,858	\$62,648,620	\$332,311
311 Bank Overdraft		\$0										
312 Accounts Payable <= 90 Days	\$898,110	\$0	\$633,688				\$155,792		\$197	\$2,404,028	\$2,594,609	\$5,820
313 Accounts Payable >90 Days Past Due		\$0										
321 Accrued Wage/Payroll Taxes Payable	\$13,312	\$0								\$36,254	\$53,396	\$743
322 Accrued Compensated Absences - Current Portion	\$137	\$0										
324 Accrued Contingency Liability		\$0										
325 Accrued Interest Payable	\$603,425	\$0								\$3,160,866	\$360,864	
331 Accounts Payable - HUD PHA Programs		\$0										
332 Account Payable - PHA Projects		\$0										
333 Accounts Payable - Other Government	\$31,498	\$0	\$90,969				\$0		\$13,154	\$2,738	\$1,964	
341 Tenant Security Deposits	\$89,201	\$0								\$332,522	\$725,091	
342 Unearned Revenue	\$8,674	\$0					\$1,063,802			\$11,399,632	\$158,454	
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue		\$0								\$492,799	\$1,754,144	
344 Current Portion of Long-term Debt - Operating Borrowings		\$0										
345 Other Current Liabilities		\$0									\$0	
346 Accrued Liabilities - Other		\$0										
347 Inter Program - Due To		\$0										
348 Loan Liability - Current		\$0										
310 Total Current Liabilities	\$1,644,357	\$0	\$724,657	\$0	\$0	\$0	\$1,219,594	\$0	\$13,351	\$17,828,839	\$5,648,522	\$6,563
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue	\$4,554,849	\$0								\$81,065,315	\$80,882,997	
352 Long-term Debt, Net of Current - Operating Borrowings		\$0										
353 Non-current Liabilities - Other		\$0										\$8,524
354 Accrued Compensated Absences - Non Current		\$0										
355 Loan Liability - Non Current		\$0										
356 FASB 5 Liabilities		\$0										
357 Accrued Pension and OPEB Liabilities		\$0										
350 Total Non-Current Liabilities	\$4,554,849	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$81,065,315	\$80,882,997	\$8,524
300 Total Liabilities	\$6,199,206	\$0	\$724,657	\$0	\$0	\$0	\$1,219,594	\$0	\$13,351	\$98,894,154	\$86,531,519	\$15,087
400 Deferred Inflow of Resources		\$0										
508.3 Nonspendable Fund Balance												
508.4 Net Investment in Capital Assets	\$13,495,911	\$0									-\$28,953,609	
509.3 Restricted Fund Balance												
510.3 Committed Fund Balance												
511.3 Assigned Fund Balance												
511.4 Restricted Net Position	\$966,869	\$0					\$12,295,561			\$1,105,498	\$2,419,799	\$99,400
512.3 Unassigned Fund Balance												
512.4 Unrestricted Net Position	\$7,110,066	\$0	\$0	\$0	\$0	\$0	\$4,369,331	\$0	\$0	\$2,924,794	\$2,650,911	\$217,824
513 Total Equity - Net Assets / Position	\$21,572,846	\$0	\$0	\$0	\$0	\$0	\$16,664,892	\$0	\$0	-\$1,819,296	-\$23,882,899	\$317,224
600 Total Liabilities, Deferred Inflows of Resources and Equity - Net	\$27,772,052	\$0	\$724,657	\$0	\$0	\$0	\$17,884,486	\$0	\$13,351	\$97,074,858	\$62,648,620	\$332,311

San Diego Housing Commission (CA063)
San Diego, California
Entity Wide Balance Sheet Summary
Fiscal Year End: 06/30/2018

Submission Type: Audited/Single Audit

	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	8 Other Federal Program 1	9 Other Federal Program 2	2 State/Local	1 Business Activities	14.856 Lower Income Housing Assistance Program_Section 8 Moderate	Subtotal	ELIM	Total
290 Total Assets and Deferred Outflow of Resources	\$380,291	\$15,938,320	\$199,413,131	\$1	\$0	\$21,625	\$11,806,776	\$433,448,631	\$158,620	\$867,617,730	-\$16,559,322	\$851,058,408
311 Bank Overdraft									\$0	\$0		\$0
312 Accounts Payable <= 90 Days	\$72,557	\$1,822,897	\$520					\$4,084,406	\$806	\$12,673,430	-\$521,337	\$12,152,093
313 Accounts Payable >90 Days Past Due									\$0	\$0		\$0
321 Accrued Wage/Payroll Taxes Payable		\$339,958	\$5,509					\$974,591	\$95	\$1,423,858		\$1,423,858
322 Accrued Compensated Absences - Current Portion		\$156						\$2,351,691	\$0	\$2,351,984		\$2,351,984
324 Accrued Contingency Liability									\$0	\$0		\$0
325 Accrued Interest Payable								\$241,579	\$0	\$4,366,734		\$4,366,734
331 Accounts Payable - HUD PHA Programs								\$0	\$2,887	\$2,887		\$2,887
332 Account Payable - PHA Projects									\$0	\$0		\$0
333 Accounts Payable - Other Government	\$307,734		\$0	\$1					\$0	\$448,058		\$448,058
341 Tenant Security Deposits								\$424,172	\$0	\$1,570,986		\$1,570,986
342 Unearned Revenue		\$2,518	\$0	\$0			\$0	\$1,130,701	\$0	\$13,763,781		\$13,763,781
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue								\$942,329	\$0	\$3,189,272		\$3,189,272
344 Current Portion of Long-term Debt - Operating Borrowings									\$0	\$0		\$0
345 Other Current Liabilities	\$0		\$0					\$556,013	\$0	\$556,013		\$556,013
346 Accrued Liabilities - Other									\$0	\$0		\$0
347 Inter Program - Due To									\$0	\$0		\$0
348 Loan Liability - Current									\$0	\$0		\$0
310 Total Current Liabilities	\$380,291	\$2,165,529	\$6,029	\$1	\$0	\$0	\$0	\$10,705,482	\$3,788	\$40,347,003	-\$521,337	\$39,825,666
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue								\$15,235,533	\$0	\$181,738,694		\$181,738,694
352 Long-term Debt, Net of Current - Operating Borrowings									\$0	\$0		\$0
353 Non-current Liabilities - Other		\$322,277							\$0	\$330,801		\$330,801
354 Accrued Compensated Absences - Non Current									\$0	\$0		\$0
355 Loan Liability - Non Current									\$0	\$0		\$0
356 FASB 5 Liabilities									\$0	\$0		\$0
357 Accrued Pension and OPEB Liabilities								\$446	\$0	\$446		\$446
350 Total Non-Current Liabilities	\$0	\$322,277	\$0	\$0	\$0	\$0	\$0	\$15,235,979	\$0	\$182,069,941	\$0	\$182,069,941
300 Total Liabilities	\$380,291	\$2,487,806	\$6,029	\$1	\$0	\$0	\$0	\$25,941,461	\$3,788	\$222,416,944	-\$521,337	\$221,895,607
400 Deferred Inflow of Resources									\$0	\$0		\$0
508.3 Nonspendable Fund Balance									\$0			
508.4 Net Investment in Capital Assets		\$5,221,010						\$117,536,134	\$0	\$107,299,446		\$107,299,446
509.3 Restricted Fund Balance									\$0			
510.3 Committed Fund Balance									\$0			
511.3 Assigned Fund Balance									\$0			
511.4 Restricted Net Position		\$2,230,219	\$181,021,187					\$348,066	\$0	\$200,486,599		\$200,486,599
512.3 Unassigned Fund Balance									\$0			
512.4 Unrestricted Net Position	\$0	\$5,999,285	\$18,385,915	\$0	\$0	\$21,625	\$11,806,776	\$289,622,970	\$154,832	\$337,414,741	-\$16,037,985	\$321,376,756
513 Total Equity - Net Assets / Position	\$0	\$13,450,514	\$199,407,102	\$0	\$0	\$21,625	\$11,806,776	\$407,507,170	\$154,832	\$645,200,786	-\$16,037,985	\$629,162,801
600 Total Liabilities, Deferred Inflows of Resources and Equity - Net	\$380,291	\$15,938,320	\$199,413,131	\$1	\$0	\$21,625	\$11,806,776	\$433,448,631	\$158,620	\$867,617,730	-\$16,559,322	\$851,058,408

San Diego Housing Commission (CA063)
San Diego, California
Entity Wide Revenue and Expense Summary
Fiscal Year End: 06/30/2018

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	14.870 Resident Opportunity and Supportive Services	6.1 Component Unit Discretely Presented	6.2 Component Unit Blended	14.880 Family Unification Program (FUP)
70300 Net Tenant Rental Revenue	\$1,011,263	\$0								\$6,707,055	\$18,274,471	
70400 Tenant Revenue - Other	\$10,275	\$0								\$26,571	\$61,477	
70500 Total Tenant Revenue	\$1,021,538	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$6,733,626	\$18,335,948	\$0
70600 HUD PHA Operating Grants		\$0	\$4,265,173	\$319,473		\$2,933,146	\$8,298,878	\$188,396,764	\$87,294	\$418,185		\$990,874
70610 Capital Grants		\$0										
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		\$0					\$17,608				\$8,000	
71100 Investment Income - Unrestricted	\$56,884	\$0					\$3,286		\$0	\$3,414	\$2,559	\$2,816
71200 Mortgage Interest Income		\$0					\$272,157					
71300 Proceeds from Disposition of Assets Held for Sale		\$0										
71310 Cost of Sale of Assets		\$0										
71400 Fraud Recovery		\$0										
71500 Other Revenue	\$23,556	\$0					\$0			\$423,805	\$909,680	\$2
71600 Gain or Loss on Sale of Capital Assets		\$0										
72000 Investment Income - Restricted	\$3,771	\$0								\$8,244	\$1,156	
70000 Total Revenue	\$1,105,749	\$0	\$4,265,173	\$319,473	\$0	\$2,933,146	\$8,591,929	\$188,396,764	\$87,294	\$7,587,274	\$19,257,343	\$993,692
91100 Administrative Salaries	\$191,601	\$0	\$216,699				\$134,572			\$345,139	\$519,914	\$27,959
91200 Auditing Fees	\$27,289	\$0								\$149,795	\$57,600	
91300 Management Fee		\$0										
91310 Book-keeping Fee		\$0								\$19,512		
91400 Advertising and Marketing		\$0								\$443		
91500 Employee Benefit contributions - Administrative	\$54,013	\$0	\$73,135				\$43,767			\$94,272	\$189,912	\$4,624
91600 Office Expenses	\$39,365	\$0	\$134				\$1,247			\$333,321	\$94,702	\$10
91700 Legal Expense	\$5,177	\$0					\$396			\$85,766	\$67,476	
91800 Travel	\$136	\$0									\$927	
91810 Allocated Overhead	\$363,691	\$0					\$19,429				\$926,385	\$33,723
91900 Other	\$25,219	\$0	\$30,242				\$304			\$1,305,144	\$80,311	\$705
91000 Total Operating - Administrative	\$706,491	\$0	\$320,210	\$0	\$0	\$0	\$199,715	\$0	\$0	\$2,333,392	\$1,937,227	\$67,021
92000 Asset Management Fee		\$0										
92100 Tenant Services - Salaries		\$0							\$56,832	\$69,603		
92200 Relocation Costs	\$171,275	\$0									\$191,825	
92300 Employee Benefit Contributions - Tenant Services		\$0							\$19,551			
92400 Tenant Services - Other	\$349	\$0								\$94,620	\$57,967	
92500 Total Tenant Services	\$171,624	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$76,383	\$164,223	\$249,792	\$0
93100 Water	\$98,482	\$0								\$137,988	\$729,292	
93200 Electricity	\$33,700	\$0								\$351,793	\$116,055	
93300 Gas	\$27,156	\$0								\$85,522	\$162,807	
93400 Fuel		\$0										
93500 Labor		\$0										
93600 Sewer	\$101,112	\$0								\$100,630	\$522,801	
93700 Employee Benefit Contributions - Utilities		\$0										
93800 Other Utilities Expense	\$323	\$0								\$4,228	\$598	
93000 Total Utilities	\$260,773	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$680,161	\$1,531,553	\$0

San Diego Housing Commission (CA063)
San Diego, California
Entity Wide Revenue and Expense Summary
Fiscal Year End: 06/30/2018

Submission Type: Audited/Single Audit

	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	8 Other Federal Program 1	9 Other Federal Program 2	2 State/Local	1 Business Activities	14.856 Lower Income Housing Assistance Program_Section 8 Moderate	Subtotal	ELIM	Total
70300 Net Tenant Rental Revenue								\$11,656,303	\$0	\$37,649,092	-\$15,228	\$37,633,864
70400 Tenant Revenue - Other								\$389,651	\$0	\$487,974		\$487,974
70500 Total Tenant Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$12,045,954	\$0	\$38,137,066	-\$15,228	\$38,121,838
70600 HUD PHA Operating Grants	\$978,282	\$0	\$7,628,713		\$2,382			\$0	\$505,729	\$214,824,893		\$214,824,893
70610 Capital Grants									\$0	\$0		\$0
70710 Management Fee									\$0			
70720 Asset Management Fee									\$0			
70730 Book Keeping Fee									\$0			
70740 Front Line Service Fee									\$0			
70750 Other Fees								\$5,157,375	\$0	\$5,157,375	-\$943,520	\$4,213,855
70700 Total Fee Revenue									\$0	\$0	-\$943,520	-\$943,520
70800 Other Government Grants			\$0				\$250,386	\$25,886,869	\$0	\$26,162,863		\$26,162,863
71100 Investment Income - Unrestricted		\$67,790	\$42	\$1	\$0	\$0	\$4,312	\$888,023	\$1,489	\$1,030,616		\$1,030,616
71200 Mortgage Interest Income			\$5,144,412				\$243,328	\$4,276,670	\$0	\$9,936,567		\$9,936,567
71300 Proceeds from Disposition of Assets Held for Sale									\$0	\$0		\$0
71310 Cost of Sale of Assets									\$0	\$0		\$0
71400 Fraud Recovery		\$64,535							\$712	\$65,247		\$65,247
71500 Other Revenue		\$2,264,477	\$269,120				\$0	\$5,023,860	\$0	\$8,914,500	-\$33,041	\$8,881,459
71600 Gain or Loss on Sale of Capital Assets								\$13,683,840	\$0	\$13,683,840		\$13,683,840
72000 Investment Income - Restricted									\$0	\$13,171		\$13,171
70000 Total Revenue	\$978,282	\$2,396,802	\$13,042,287	\$1	\$2,382	\$0	\$498,026	\$66,962,591	\$507,930	\$317,926,138	-\$991,789	\$316,934,349
91100 Administrative Salaries	\$44,034	\$5,591,425	\$550,902				\$6,601	\$13,992,314	\$11,364	\$21,632,524		\$21,632,524
91200 Auditing Fees								\$116,511	\$0	\$351,195		\$351,195
91300 Management Fee									\$0	\$0		\$0
91310 Book-keeping Fee									\$0	\$19,512		\$19,512
91400 Advertising and Marketing								\$17,299	\$0	\$17,742		\$17,742
91500 Employee Benefit contributions - Administrative	\$14,275	\$2,018,328	\$140,372				\$2,263	\$4,279,296	\$1,828	\$6,916,085		\$6,916,085
91600 Office Expenses		\$226,629	\$12,280				\$707	\$3,278,629	\$0	\$3,987,024	-\$15,228	\$3,971,796
91700 Legal Expense		\$85,058	\$3,490				\$473	\$962,926	\$0	\$1,110,762		\$1,110,762
91800 Travel		\$15,823	\$1,959					\$106,840	\$0	\$125,685		\$125,685
91810 Allocated Overhead		\$7,721,459	\$522,908				\$6,345	-\$8,682,606	\$15,054	\$926,388	-\$926,385	\$3
91900 Other		\$501,354	\$22,020		\$2		\$235	\$2,357,023	\$139	\$4,322,698	-\$45,351	\$4,277,347
91000 Total Operating - Administrative	\$58,309	\$16,160,076	\$1,253,931	\$0	\$2	\$0	\$16,624	\$16,328,232	\$28,385	\$39,409,615	-\$986,964	\$38,422,651
92000 Asset Management Fee									\$0	\$0		\$0
92100 Tenant Services - Salaries		\$900,579			\$1,407			\$104,637	\$0	\$1,133,058		\$1,133,058
92200 Relocation Costs		\$460,901						\$137,831	\$0	\$961,832		\$961,832
92300 Employee Benefit Contributions - Tenant Services		\$290,005			\$520			\$30,811	\$0	\$340,887		\$340,887
92400 Tenant Services - Other		\$11,979						\$74,253	\$0	\$239,168		\$239,168
92500 Total Tenant Services	\$0	\$1,663,464	\$0	\$0	\$1,927	\$0	\$0	\$347,532	\$0	\$2,674,945	\$0	\$2,674,945
93100 Water								\$430,257	\$0	\$1,396,019		\$1,396,019
93200 Electricity								\$704,286	\$0	\$1,205,834		\$1,205,834
93300 Gas								\$97,256	\$0	\$372,741		\$372,741
93400 Fuel									\$0	\$0		\$0
93500 Labor									\$0	\$0		\$0
93600 Sewer								\$313,636	\$0	\$1,038,179		\$1,038,179
93700 Employee Benefit Contributions - Utilities									\$0	\$0		\$0
93800 Other Utilities Expense								\$30,338	\$0	\$35,487		\$35,487
93000 Total Utilities	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,575,773	\$0	\$4,048,260	\$0	\$4,048,260

San Diego Housing Commission (CA063)
San Diego, California
Entity Wide Revenue and Expense Summary
Fiscal Year End: 06/30/2018

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	14.870 Resident Opportunity and Supportive Services	6.1 Component Unit Discretely Presented	6.2 Component Unit Blended	14.880 Family Unification Program (FUP)
94100 Ordinary Maintenance and Operations - Labor	\$94,491	\$0								\$385,905	\$440,334	
94200 Ordinary Maintenance and Operations - Materials and Other	\$25,678	\$0								\$58,337	\$228,115	
94300 Ordinary Maintenance and Operations Contracts	\$1,126,836	\$0								\$370,410	\$7,956,296	
94500 Employee Benefit Contributions - Ordinary Maintenance	\$38,609	\$0									\$178,913	
94000 Total Maintenance	\$1,285,614	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$814,652	\$8,803,658	\$0
95100 Protective Services - Labor		\$0								\$132		
95200 Protective Services - Other Contract Costs	\$51,765	\$0								\$331,572	\$118,315	
95300 Protective Services - Other		\$0								\$17,642		
95500 Employee Benefit Contributions - Protective Services		\$0										
95000 Total Protective Services	\$51,765	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$349,346	\$118,315	\$0
96110 Property Insurance	\$8,685	\$0									\$76,044	
96120 Liability Insurance	\$8,234	\$0								\$148,651	\$68,690	\$278
96130 Workmen's Compensation	\$9,913	\$0	\$3,270				\$1,864		\$344	\$74,196	\$39,881	\$211
96140 All Other Insurance	\$13,043	\$0								\$10,744	\$85,385	
96100 Total Insurance Premiums	\$39,875	\$0	\$3,270	\$0	\$0	\$0	\$1,864	\$0	\$344	\$233,591	\$270,000	\$489
96200 Other General Expenses	\$1,158	\$0	\$431,209				\$1,599,144		\$10,567	\$578,027	\$78,236	\$2,503
96210 Compensated Absences	\$18,354	\$0					\$817				\$21,667	\$2,880
96300 Payments in Lieu of Taxes	\$105	\$0								\$11,935	\$48,388	
96400 Bad debt - Tenant Rents	\$5,069	\$0									\$49,721	
96500 Bad debt - Mortgages		\$0					-\$7,361				\$0	
96600 Bad debt - Other	\$3,111	\$0								\$7,230	\$61,473	-\$1,512
96800 Severance Expense		\$0										
96000 Total Other General Expenses	\$27,797	\$0	\$431,209	\$0	\$0	\$0	\$1,592,600	\$0	\$10,567	\$597,192	\$259,485	\$3,871
96710 Interest of Mortgage (or Bonds) Payable	\$136,635	\$0								\$1,876,838	\$4,600,874	
96720 Interest on Notes Payable (Short and Long Term)		\$0										
96730 Amortization of Bond Issue Costs		\$0										
96700 Total Interest Expense and Amortization Cost	\$136,635	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,876,838	\$4,600,874	\$0
96900 Total Operating Expenses	\$2,680,574	\$0	\$754,689	\$0	\$0	\$0	\$1,794,179	\$0	\$87,294	\$7,049,395	\$17,770,904	\$71,381
97000 Excess of Operating Revenue over Operating Expenses	-\$1,574,825	\$0	\$3,510,484	\$319,473	\$0	\$2,933,146	\$6,797,750	\$188,396,764	\$0	\$537,879	\$1,486,439	\$922,311
97100 Extraordinary Maintenance		\$0								\$3,294	\$13,542	
97200 Casualty Losses - Non-capitalized		\$0										
97300 Housing Assistance Payments		\$0	\$3,510,484									\$1,007,097
97350 HAP Portability-In		\$0										
97400 Depreciation Expense	\$1,026,408	\$0								\$3,158,187	\$2,168,119	
97500 Fraud Losses		\$0										
97600 Capital Outlays - Governmental Funds												
97700 Debt Principal Payment - Governmental Funds												
97800 Dwelling Units Rent Expense		\$0										
90000 Total Expenses	\$3,706,982	\$0	\$4,265,173	\$0	\$0	\$0	\$1,794,179	\$0	\$87,294	\$10,210,876	\$19,952,565	\$1,078,478
10010 Operating Transfer In	\$10,220,299	\$0									\$698,295	
10020 Operating transfer Out	-\$6,605,118	\$0		-\$319,473		-\$2,933,146	-\$17,554	-\$188,396,764			-\$695,131	
10030 Operating Transfers from/to Primary Government		\$0										
10040 Operating Transfers from/to Component Unit		\$0										
10050 Proceeds from Notes, Loans and Bonds												
10060 Proceeds from Property Sales												
10070 Extraordinary Items, Net Gain/Loss		\$0										
10080 Special Items (Net Gain/Loss)		\$0								-\$10,386,142	\$16,037,985	
10091 Inter Project Excess Cash Transfer In												
10092 Inter Project Excess Cash Transfer Out												
10093 Transfers between Program and Project - In		\$0										

San Diego Housing Commission (CA063)
San Diego, California
Entity Wide Revenue and Expense Summary
Fiscal Year End: 06/30/2018

Submission Type: Audited/Single Audit

	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	8 Other Federal Program 1	9 Other Federal Program 2	2 State/Local	1 Business Activities	14.856 Lower Income Housing Assistance Program_Section 8 Moderate	Subtotal	ELIM	Total
94100 Ordinary Maintenance and Operations - Labor								\$497,659	\$0	\$1,418,389		\$1,418,389
94200 Ordinary Maintenance and Operations - Materials and Other								\$168,740	\$0	\$480,870		\$480,870
94300 Ordinary Maintenance and Operations Contracts		\$1,447,700						\$3,746,796	\$0	\$14,648,038		\$14,648,038
94500 Employee Benefit Contributions - Ordinary Maintenance								\$216,827	\$0	\$434,349		\$434,349
94000 Total Maintenance	\$0	\$1,447,700	\$0	\$0	\$0	\$0	\$0	\$4,630,022	\$0	\$16,981,646	\$0	\$16,981,646
95100 Protective Services - Labor									\$0	\$132		\$132
95200 Protective Services - Other Contract Costs								\$418,718	\$0	\$920,370		\$920,370
95300 Protective Services - Other								\$1,989	\$0	\$19,631		\$19,631
95500 Employee Benefit Contributions - Protective Services									\$0	\$0		\$0
95000 Total Protective Services	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$420,707	\$0	\$940,133	\$0	\$940,133
96110 Property Insurance								\$88,357	\$0	\$173,086		\$173,086
96120 Liability Insurance		\$55,365						\$187,656	\$122	\$468,996		\$468,996
96130 Workmen's Compensation	\$554	\$76,993	\$6,261		\$12		\$88	\$201,548	\$130	\$415,265		\$415,265
96140 All Other Insurance		\$7						\$261,410	\$0	\$370,589		\$370,589
96100 Total Insurance Premiums	\$554	\$132,365	\$6,261	\$0	\$12	\$0	\$88	\$738,971	\$252	\$1,427,936	\$0	\$1,427,936
96200 Other General Expenses	\$919,419	\$2,434,565	\$111,667		\$441		\$114,165	\$15,576,031	\$0	\$21,857,132	-\$4,825	\$21,852,307
96210 Compensated Absences		\$136,748	\$39,180				\$282	\$534,752	\$1,198	\$755,878		\$755,878
96300 Payments in Lieu of Taxes								\$24,363	\$0	\$84,791		\$84,791
96400 Bad debt - Tenant Rents		-\$386						\$131,381	\$0	\$185,785		\$185,785
96500 Bad debt - Mortgages			\$487,995				-\$98,514	\$169,020	\$0	\$551,140		\$551,140
96600 Bad debt - Other		\$24,110					\$16,176	\$460,244	\$0	\$579,832		\$579,832
96800 Severance Expense									\$0	\$0		\$0
96000 Total Other General Expenses	\$919,419	\$2,595,037	\$638,842	\$0	\$441	\$0	\$32,109	\$16,904,791	\$1,198	\$24,014,558	-\$4,825	\$24,009,733
96710 Interest of Mortgage (or Bonds) Payable								\$457,652	\$0	\$7,071,999		\$7,071,999
96720 Interest on Notes Payable (Short and Long Term)									\$0	\$0		\$0
96730 Amortization of Bond Issue Costs									\$0	\$0		\$0
96700 Total Interest Expense and Amortization Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$457,652	\$0	\$7,071,999	\$0	\$7,071,999
96900 Total Operating Expenses	\$978,282	\$21,998,642	\$1,899,034	\$0	\$2,382	\$0	\$48,821	\$41,403,680	\$29,835	\$96,569,092	-\$991,789	\$95,577,303
97000 Excess of Operating Revenue over Operating Expenses	\$0	-\$19,601,840	\$11,143,253	\$1	\$0	\$0	\$449,205	\$25,556,911	\$478,085	\$221,357,046	\$0	\$221,357,046
97100 Extraordinary Maintenance								\$4,123	\$0	\$20,959		\$20,959
97200 Casualty Losses - Non-capitalized									\$0	\$0		\$0
97300 Housing Assistance Payments		\$141,707,013						\$1,072,359	\$449,270	\$147,746,223		\$147,746,223
97350 HAP Portability-In		\$1,945,044							\$0	\$1,945,044		\$1,945,044
97400 Depreciation Expense		\$29,168						\$3,991,255	\$0	\$10,373,137		\$10,373,137
97500 Fraud Losses									\$0	\$0		\$0
97600 Capital Outlays - Governmental Funds									\$0			
97700 Debt Principal Payment - Governmental Funds									\$0			
97800 Dwelling Units Rent Expense									\$0	\$0		\$0
90000 Total Expenses	\$978,282	\$165,679,867	\$1,899,034	\$0	\$2,382	\$0	\$48,821	\$46,471,417	\$479,105	\$256,654,455	-\$991,789	\$255,662,666
10010 Operating Transfer In		\$191,649,383	\$8,209				\$16,488	\$20,892,409	\$0	\$223,485,083	-\$223,485,083	\$0
10020 Operating Transfer Out		-\$23,822,765	\$0	-\$1				-\$695,131	\$0	-\$223,485,083	\$223,485,083	\$0
10030 Operating Transfers from/to Primary Government									\$0	\$0		\$0
10040 Operating Transfers from/to Component Unit									\$0	\$0		\$0
10050 Proceeds from Notes, Loans and Bonds									\$0			
10060 Proceeds from Property Sales									\$0			
10070 Extraordinary Items, Net Gain/Loss									\$0	\$0		\$0
10080 Special Items (Net Gain/Loss)									\$0	\$5,651,843	-\$16,037,965	-\$10,386,142
10091 Inter Project Excess Cash Transfer In									\$0			
10092 Inter Project Excess Cash Transfer Out									\$0			
10093 Transfers between Program and Project - In									\$0	\$0		\$0

San Diego Housing Commission (CA063)
San Diego, California
Entity Wide Revenue and Expense Summary
Fiscal Year End: 06/30/2018

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	14.870 Resident Opportunity and Supportive Services	6.1 Component Unit Discretely Presented	6.2 Component Unit Blended	14.880 Family Unification Program (FUP)
10094 Transfers between Project and Program - Out		\$0										
10100 Total Other financing Sources (Uses)	\$3,615,181	\$0	\$0	-\$319,473	\$0	-\$2,933,146	-\$17,554	-\$188,396,764	\$0	-\$10,386,142	\$16,041,149	\$0
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	\$1,013,948	\$0	\$0	\$0	\$0	\$0	\$6,780,196	\$0	\$0	-\$13,009,744	\$15,345,927	-\$84,786
11020 Required Annual Debt Principal Payments	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,202,491	\$1,750,832	\$0
11030 Beginning Equity	\$20,558,898	\$0	\$0	\$0	\$0	\$0	\$9,884,696	\$0	\$0	\$11,190,448	-\$39,228,826	\$402,010
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	1918	0								6010	15060	1200
11210 Number of Unit Months Leased	1869	0								5848	14919	950
11270 Excess Cash	\$7,959,267											
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: 06/30/2018

Submission Type: Audited/Single Audit

	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	8 Other Federal Program 1	9 Other Federal Program 2	2 State/Local	1 Business Activities	14.856 Lower Income Housing Assistance Program_Section 8 Moderate	Subtotal	ELIM	Total
10094 Transfers between Project and Program - Out									\$0	\$0		\$0
10100 Total Other financing Sources (Uses)	\$0	\$167,826,618	\$8,209	-\$1	\$0	\$0	\$16,488	\$20,197,278	\$0	\$5,651,843	-\$16,037,985	-\$10,386,142
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	\$0	\$4,543,553	\$11,151,462	\$0	\$0	\$0	\$465,693	\$40,688,452	\$28,825	\$66,923,526	-\$16,037,985	\$50,885,541
11020 Required Annual Debt Principal Payments	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$942,073	\$0	\$3,895,396	\$0	\$3,895,396
11030 Beginning Equity	\$0	\$8,906,961	\$188,255,640	\$0	\$0	\$21,625	\$11,341,083	\$366,818,718	\$126,007	\$578,277,260		\$578,277,260
11040 Prior Period Adjustments, Equity Transfers and Correction of Errors									\$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		182226						10357	480	217251		217251
11210 Number of Unit Months Leased		172997						10125	467	207175		207175
11270 Excess Cash									\$0	\$7,959,267		\$7,959,267
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 San Diego Housing Commission's (SDHC) Achievement Academy is a learning and resource center and computer lab located at SDHC's headquarters. Its programs—including Family Self-Sufficiency—emphasize career planning, job skills, and personal financial education to help individuals and families become more financially self-reliant. Recent Financial Self-Sufficiency program graduates are pictured above.

An SDHC Achievement Academy partnership with the City of San Diego and San Diego Workforce Partnership has been selected to serve as one of the U.S. Department of Housing and Urban Development's new EnVision Centers to promote financial self-reliance among federal rental assistance recipients and public housing residents.





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 132.

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 134.

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 - 149.

FINANCIAL TRENDS



San Diego Housing Commission

Net Position by Component (Unaudited)

Ten Years Ending June 30, 2018

<u>Fiscal Year</u>	<u>Net Investment in Capital Assets</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total Net Position</u>
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
2017	95,953,834	182,546,323	288,586,654	567,086,811
2018	107,299,446	199,381,101	324,301,550	630,982,097



San Diego Housing Commission

Revenues, Expenses and Changes in Net Position (Unaudited)

Last Ten Years Ending June 30, 2018

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Operating revenues										
Dwelling rental income	\$ 31,061,313	\$ 30,079,966	\$ 28,090,296	\$ 26,450,075	\$ 25,750,939	\$ 25,669,589	\$ 25,082,830	\$ 24,309,910	\$ 21,193,199	\$ 21,431,650
Land lease and other rental income	2,601,204	2,492,779	2,668,438	2,245,059	2,119,188	2,023,344	1,892,027	1,970,080	1,233,941	1,368,541
Fee revenue	4,213,854	4,511,918	3,866,857	2,947,588	2,145,715	2,030,042	1,886,252	2,867,606	1,813,413	1,648,597
Shared equity income	-	-	-	-	-	-	171,422	158,270	181,535	206,068
Other revenue	6,276,590	4,407,790	3,777,214	2,767,714	3,222,683	1,927,430	1,120,603	2,076,205	3,365,390	1,439,749
Total operating revenues	44,152,961	41,492,453	38,402,805	34,410,436	33,238,525	31,650,405	30,153,134	31,382,071	27,787,478	26,094,605
Operating expenses										
Administrative expenses	37,026,223	34,542,960	31,826,310	29,500,978	28,839,617	28,713,564	26,870,807	24,686,591	23,208,287	19,959,913
Tenant services	2,544,030	1,988,632	1,626,314	1,541,169	1,370,247	1,919,200	2,207,747	2,450,010	1,862,540	1,687,646
Asset management	20,288,174	14,170,505	8,895,547	9,505,111	8,885,279	7,790,710	7,470,695	10,130,088	7,074,276	6,664,735
General expenses	3,059,488	1,435,332	2,072,713	985,363	2,266,935	1,201,718	2,615,886	3,840,050	4,587,653	3,286,471
Grant expense	20,432,499	11,752,995	15,753,280	11,103,144	17,115,718	6,650,674	5,879,572	4,698,932	5,065,696	4,561,061
Housing assistance	149,691,267	144,557,990	146,570,467	145,836,071	147,311,387	150,905,154	147,823,240	145,876,110	144,790,881	139,234,699
Depreciation	7,214,950	5,764,403	5,130,888	4,916,809	4,800,693	4,113,552	3,920,321	4,047,879	2,595,635	2,367,288
Total operating expenses	240,256,631	214,212,817	211,875,519	203,388,645	210,589,876	201,294,572	196,788,268	195,729,660	189,184,968	177,761,813
Operating loss	(196,103,670)	(172,720,364)	(173,472,714)	(168,978,209)	(177,351,351)	(169,644,167)	(166,635,134)	(164,347,589)	(161,397,490)	(151,667,208)
Nonoperating revenues (expenses):										
Grant revenue	240,541,580	217,487,187	200,005,483	191,703,603	186,987,313	188,240,947	182,353,583	184,749,521	189,101,021	169,455,958
Investment income	10,968,696	9,099,264	9,988,417	9,742,843	9,118,073	8,637,551	8,774,498	6,974,862	7,312,333	6,374,263
Gain/loss on sale of capital assets	2,376	-	3,844,578	-	-	38,220	(49,695)	(683)	-	-
Gain on fair market value of interest swap	-	-	-	-	-	-	-	859,125	459,836	(831,228)
Interest expense	(5,195,160)	(5,344,008)	(5,513,125)	(5,684,425)	(5,879,510)	(5,913,243)	(6,263,417)	(6,558,569)	(3,001,349)	(1,785,551)
Net nonoperating revenues	246,317,492	221,242,443	208,325,353	195,762,021	190,225,876	191,003,475	184,814,969	186,024,256	193,871,841	173,213,442
Change in net position before capital transaction	50,213,822	48,522,079	34,852,639	26,783,812	12,874,525	21,359,308	18,179,835	21,676,667	32,474,351	21,546,234
Gain on sale of property to component unit	13,681,464	-	-	-	-	-	-	-	-	-
Total revenues and expenses	63,895,286	48,522,079	34,852,639	26,783,812	12,874,525	21,359,308	18,179,835	21,676,667	32,474,351	21,546,234
Capital grants	-	-	-	-	-	-	-	-	-	-
Change in net position	\$ 63,895,286	\$ 48,522,079	\$ 34,852,639	\$ 26,783,812	\$ 12,874,525	\$ 21,359,308	\$ 18,179,835	\$ 21,676,667	\$ 32,474,351	\$ 21,546,234



San Diego Housing Commission
Capital Assets by Category (Unaudited)
Last Ten Years Ending June 30, 2018

CATEGORY	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Land	\$ 70,080,168	\$ 69,340,679	\$ 68,081,575	\$ 68,369,250	\$ 63,186,873	\$ 63,036,133	\$ 60,563,275	\$ 60,440,951	\$ 39,022,937	\$ 29,543,943
Construction in progress	879,290	2,772,651	8,296,759	2,267,262	751,305	1,854,210	9,831,387	465,800	4,319,426	7,000,730
Buildings	111,991,212	107,701,541	98,468,109	98,468,109	88,811,413	88,811,413	84,722,349	84,722,349	60,954,269	56,403,458
Building improvements	73,450,053	57,589,992	36,008,102	33,581,403	33,581,403	30,811,213	17,719,475	17,719,475	12,227,363	12,368,642
Furniture and equipment	4,749,007	4,821,310	4,495,410	4,347,152	4,105,103	3,781,552	3,494,073	3,213,224	2,930,854	2,844,786
Total capital assets	261,149,730	242,226,173	215,349,955	207,033,176	190,436,097	188,294,521	176,330,559	166,561,799	119,454,849	108,161,559
Less accumulated depreciation										
Buildings	26,128,333	23,542,214	20,922,471	18,418,147	16,115,003	13,852,095	11,620,965	9,464,032	8,059,821	7,521,776
Building improvements	19,304,745	15,194,653	12,332,422	10,056,086	7,816,863	5,678,975	4,087,090	2,774,997	2,233,130	2,048,503
Furniture and equipment	3,910,710	4,119,438	3,960,054	3,741,342	3,366,900	2,967,003	2,731,187	2,309,871	1,904,844	1,363,573
Total accumulated depreciation	49,343,788	42,856,305	37,214,947	32,215,575	27,298,766	22,498,073	18,439,242	14,548,900	12,197,795	10,933,852
Net capital assets	211,805,942	199,369,868	178,135,008	174,817,601	163,137,331	165,796,448	157,891,317	152,012,899	107,257,054	97,227,707
Related debt	104,506,496	103,416,034	105,012,392	105,945,935	108,275,122	110,505,903	103,122,525	108,920,815	67,468,770	27,769,404
Net investment in capital assets	\$ 107,299,446	\$ 95,953,834	\$ 73,122,616	\$ 68,871,666	\$ 54,862,209	\$ 55,290,545	\$ 54,768,792	\$ 43,092,084	\$ 39,788,284	\$ 69,458,303

REVENUE CAPACITY



San Diego Housing Commission
Revenue on a Gross Basis (Unaudited)
Last Ten Years Ending June 30, 2018

DESCRIPTION	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Revenues (gross):										
Operating revenues	\$ 44,152,961	\$ 41,492,453	\$ 38,402,805	\$ 34,410,406	\$ 33,238,525	\$ 31,650,405	\$ 30,153,134	\$ 31,382,071	\$ 27,787,478	\$ 26,094,605
Subsidies and grants	240,541,580	217,487,187	200,005,483	191,703,603	186,987,313	188,240,947	182,353,583	184,749,521	189,101,021	169,455,958
Investment income	10,968,696	9,099,264	9,988,417	9,742,843	9,118,073	8,637,551	8,774,498	6,974,862	7,312,333	6,374,263
Gain/loss on sale of capital assets	2,376	-	3,844,578	-	-	38,220	(49,695)	(683)	-	-
Gain on sale of property to component unit	13,681,464	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	859,125	459,836	-
Total revenues	<u>\$309,347,077</u>	<u>\$268,078,904</u>	<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>

DEBT CAPACITY



San Diego Housing Commission

Outstanding Debt Related to Capital Assets (Unaudited)

Last Ten Years Ending June 30, 2018

Fiscal year	Notes Payable		Capital Assets Less Accumulated Depreciation	Ratio of total debt to capital assets*
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%
2017	103,813,347	*****	199,369,868	52.07%
2018	103,369,851	*****	211,805,942	48.80%

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.

***** The total notes payable of \$103 million includes \$398,000 of unspent loan proceeds,
and \$1.6 million of unamortized debt issuance costs***** The total notes payable of \$103 million includes \$400,000 of unspent loan proceeds,
and \$1.5 million of unamortized debt issuance costs

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
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%
2016-17	325,337,675	0.45%	1,406,318	1.05%
2017-18	328,026,343	0.83%	1,419,845	0.96%

Source: U.S. Department of Commerce, Bureau of Economic Analysis
MuniServices, LLC, and Comprehensive Annual Financial Reports



**San Diego Housing Commission
Demographic and Economic Statistics for the City of San Diego
Ten Years Ended June 30, 2018**

Population and Personal Income - City of San Diego

Year	Population¹	Personal Income² (1,000s)	Per Capita Personal Income	Unemployment Rate³(%)
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
2016-17	1,406,318	50,542,056	35,939	4.4
2017-18	1,419,845	54,274,285	38,226	3.1

Footnotes:

¹Population projections are provided by the California Department of Financial Projections

²Income data is provided by the United States Census Data and is adjusted for inflation

³Unemployment 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

Employer	Number of Employees	Percentage of Total Employment
For the Fiscal Year Ended June 30, 2018		
Naval Base San Diego(1)	38,729	5.42%
University of California San Diego (2)	37,412	5.24%
Sharp Health Care (3)	18,364	2.57%
County of San Diego	18,132	2.54%
San Diego Unified School District	13,059	1.93%
Scripps Health (4)	12,000	1.68%
City of San Diego	11,503	1.61%
Qualcomm Inc (5)	10,700	1.50%
Kaiser Permanente(6)	9,599	1.34%
San Diego Community College District(7)	6,447	0.90%
Total Top Employers	175,945	24.74%
For the Fiscal Year Ended June 30, 2009		
Naval Base San Diego(1)	55,300	7.91%
University of California San Diego (2)	19,435	2.78%
Sharp Health Care (3)	14,724	2.11%
County of San Diego	17,900	2.56%
San Diego Unified School District	21,959	3.14%
Scripps Health (4)		
City of San Diego	10,799	1.54%
Qualcomm Inc (5)	6,000	0.86%
Kaiser Permanente(6)	7,220	1.03%
San Diego Community College District(7)		
University of San Diego	6,086	0.87%
UC San Diego Medical Center	5,300	0.76%
Total Top Employers	164,723	23.56%

Source: MuniServices, LLC, and Fiscal Year 2008 Prior published CAFR

Results based on direct correspondence with city's local businesses.

(1) Includes Active Duty Navy and Marine, and Civil Services employees.

(2) Includes full and part time, academic and support, and UCSD Medical Center, School of Medic

(3) Employee count is countywide

(4) Scripps Health employees within city limits, not including Mercy hospital in Chula Vista

(5) Excludes temps and interns

(6) Count includes physicians

(7) Not including out of state military instructors



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

Resident Members Per Household			Number Bedrooms Per Household		
Categories	Households	Percent	Categories	Households	Percent
1 Member	6,725	43.6%	Studio	1,622	10.5%
2 Members	3,500	22.7%	1 Bedroom	4,098	26.6%
3 Members	1,827	11.9%	2 Bedrooms	5,289	34.3%
4 Members	1,448	9.4%	3 Bedrooms	3,187	20.7%
5 Members	948	6.1%	4 Bedrooms	1,018	6.6%
6 Member	486	3.2%	5 Bedrooms	182	1.2%
7 Members	223	1.4%	6 Bedrooms	18	0.1%
8 Members	119	0.8%	7 Bedrooms	-	0.0%
9 Member	72	0.5%	8 Bedrooms	-	0.0%
10 + Members	67	0.4%	9 Bedrooms	1	0.0%
Total	15,415	100.0%	Total	15,415	100.0%

**San Diego Housing Commission
Resident Income Information - Unaudited
Housing Choice Voucher Programs**

Income Ranges (All Sources)

Annual Income Ranges	No. of Households	Percentage
\$ 0-.99	509	3.3%
\$ 1-9,999	1,734	11.2%
\$ 10,000-19,999	8,063	52.3%
\$ 20,000-29,999	2,711	17.6%
\$ 30,000-39,999	1,360	8.8%
\$ 40,000-49,999	664	4.3%
\$ 50,000+	374	2.4%
Total	15,415	100.00%



**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	315	2.0%
1	1,254	8.1%
2	863	5.6%
3	1,175	7.6%
4	908	5.9%
5	245	1.6%
6	723	4.7%
7	718	4.7%
8	321	2.1%
9	454	2.9%
10	372	2.4%
11	1,776	11.5%
12	361	2.3%
13	861	5.6%
14	441	2.9%
15	288	1.9%
16	655	4.2%
17	1,299	8.4%
18	347	2.3%
19	355	2.3%
20+	1,684	11.0%
Total	15,415	100.0%

Source: San Diego Housing Commission Statistics

OPERATING INFORMATION



San Diego Housing Commission
Operating Information
Property Characteristic and Dwelling Units

San Diego Housing Commission Owned

Address		No. Units	Year Built
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
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
4339	Marcia Court	1	1970
4074	Marcwade Drive	1	1970
4150	Marcwade Drive	1	1970


San Diego Housing Commission Owned - Continued

Address	No. Units	Year Built
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
10101 - 10191 Maya Linda Road	132	1978
2052 - 2098 Via Las Cumbres	84	1984
4262-4268 44th Street	4	2009
4395 El Cajon Boulevard	33	2009
6847 Potomac Street	172	1989
1301 Fifth Avenue	130	1914
1830 Fourth Avenue	92	1990
1840 Fourth Avenue	47	1989
5330 Orange Avenue	71	1985
7720-7780 Belden Street	120	1986 Operated by HDP
2170-2172 Front Street	34	1913 Operated by HDP
827 C Street	73	1910 Operated by HDP
Total SDHC Owned	1,109	


Belden SDHC FNMA, LLC

Address	No. Units	Year Built
7705 - 7795 Belden Street	243	1983
Total Belden SDHC FNMA, LLC	243	

Northern SDHC FNMA, LLC

Address	No. Units	Year Built
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
Total Northern SDHC FNMA, LLC	138	

Central SDHC FNMA, LLC

Address	No. Units	Year Built
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
4352 #1 - 8 Oregon Street	8	1960
4043 Wilson Avenue	5	1986
Total Central SDHC FNMA, LLC	185	



Northern SDHC FHA, LLC

Address	No. Units	Year Built
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
Total Northern SDHC FHA, LLC	154	

Southern SDHC FHA, LLC

Address	No. Units	Year Built
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
Total Southern SDHC FHA, LLC	301	

Central SDHC FHA, LLC

Address	No. Units	Year Built
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
Total Central SDHC FHA, LLC	234	


Public Housing Units

Address	No. Units	Year Built
2420 #A - H 44th Street	8	1982
3222 - 24 Camulos Street	12	1982
3919 #1 - 8 Mason Street	8	1982
5385 - 5389 Trojan Avenue	3	1982
4095 #A - D Valeta Street	4	1982
605 - 695 Picador Boulevard	78	1984
325-415 South 33rd Street	40	1999
2055 - 2095 Via Las Cumbres	36	1984
Total Public Housing	189	

Total SDHC, LLC and Public Housing Units 2,553

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
4066 Messina Drive	145	Town & Country
Total Partnership Units	717	

Combined total units 3,270

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



**San Diego Housing Commission
Employee Demographics - Unaudited
As of June 30, 2018**

Seniority of Employees

Categories	Number	Percent
Less than 3 years	123	39.05%
3 to 5 years	51	16.19%
6 to 9 years	44	13.97%
10 to 19 years	52	16.51%
20 to 29 years	32	10.16%
30 years and over	<u>13</u>	4.12%
Grand Total	<u>315</u>	

Racial Composition

Categories	Number	Percent
American Indian or Alaska Native, White	2	0.63%
Asian	12	3.81%
Black or African American	31	9.84%
Hispanic or Latino	118	37.46%
Native Hawaiian or Other Pacific Islander	17	5.40%
Two or More Races	4	1.27%
White	112	35.56%
Other	<u>19</u>	6.03%
Grand Total	<u>315</u>	

Source: Information provided by San Diego Housing Commission Human Resources Department
includes direct hires



San Diego Housing Commission Number of Employees by Department

Department:	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Board & Executive Functions	8	9	7	6	8	5	4	17	16	8
Business Services	37	40	44	41	37	35	26	23	23	23
Community Relations & Communications	7	7	8	6	7	5	7	4	4	4
Development & Asset Management	0	0	0	0	0	0	0	0	0	0
External Affairs	0	0	0	0	12	12	11	0	0	0
Financial Services	26	26	22	24	25	24	25	21	20	19
Housing Finance	16	16	12	0	0	0	0	0	0	0
Housing Innovations	25	20	12	6	0	0	0	0	0	0
Housing Development Partners	5	5	4	3	3	3	3	0	0	0
Policy & Public Affairs	0	0	0	0	0	0	5	0	0	0
Real Estate Development	77	77	70	75	75	80	77	92	90	87
Rental Assistance Program	114	106	115	105	107	109	110	105	106	109
	315	306	294	266	274	273	268	262	259	250

Source: Information provided by San Diego Housing Commission Human Resources Department

San Diego Housing Commission

Single Audit Reports

June 30, 2018

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 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 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, 2018, and the related notes to the financial statements, which collectively comprise SDHC's basic financial statements, and have issued our report thereon dated November 5, 2018. 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.



Sacramento, California
November 5, 2018

Independent Auditor's Report on Compliance for Each Major Federal Program and on
Internal Control over Compliance Required by the Uniform Guidance and
Report on 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, 2018. 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, 2018.

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.

Report on Schedule of Expenditures of Federal Awards

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 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, 2018, and the related notes to the financial statements, and have issued our report thereon dated November 5, 2018. 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.

CohnReznick LLP

Sacramento, California
November 5, 2018

San Diego Housing Commission

Schedule of Expenditures of Federal Awards Year Ended June 30, 2018

<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>
U.S. Department of Housing and Urban Development				
<u>CDBG Cluster</u>				
CDBG (City)-Passed through the City of San Diego				
Contract: B-17-MC-06-0542	14.218	\$ -	\$ 3,860,034	\$ 3,860,034
Contract: B-16-MC-06-0542	14.218	-	4,381,644	4,381,644
CDBG (County)Pass-through the County of San Diego Contract: 557891	14.218	-	57,200	57,200
Subtotal CDBG Cluster	14.218 ^{1, 2}	-	8,298,878	8,298,878
<u>Emergency Solutions Grant</u>				
Passed through the City of San Diego				
Contract#: E-17-MC-06-0542	14.231 ²	-	978,282	978,282
<u>Continuum of Care</u>				
Special Needs Assistance				
CA0803L9D011507	14.267	118,310	-	118,310
CA0803L9D011608	14.267	265,457	-	265,457
CA0534L9D011609	14.267	2,898,491	-	2,898,491
CA1257L9D011501	14.267	43,676	-	43,676
CA1257L9D011602	14.267	94,487	-	94,487
CA1208L9D011603	14.267	197,794	-	197,794
CA1208L9D011704	14.267	15,344	-	15,344
CA1602L9D011600	14.267	348,342	-	348,342
CA1349L9D011501	14.267	142,982	-	142,982
CA1349L9D011602	14.267	140,290.00	-	140,290
Subtotal Special Needs Assistance	14.267 ²	4,265,173	-	4,265,173
<u>HOME Program</u>				
HOME Program: M-13-MC-06-0533	14.239	-	2,017,131	2,017,131
HOME Program: M-14-MC-06-0533	14.239	-	3,948,040	3,948,040
HOME Program: M-15-MC-06-0533	14.239	-	194,000	194,000
HOME Program: M-16-MC-06-0533	14.239	-	684,711	684,711
HOME Program: M-17-MC-06-0533	14.239	-	784,830	784,830
Subtotal - HOME Program	14.239 ¹	-	7,628,712	7,628,712

San Diego Housing Commission

Schedule of Expenditures of Federal Awards Year Ended June 30, 2018

Federal Grantor / Passthrough Grantor Program Title:	Federal CFDA Number	Direct Programs	Passed Through Programs	Federal Expenditures Amount
Section 8 Project-Based Cluster				
Section 8 Moderate Rehabilitation				
Project 1 MR1: CA063MR0001	14.856	72,133	-	72,133
Project 2 MR2: CA063MR0002	14.856	64,152	-	64,152
Project 7 MR7: CA063MR0007	14.856	369,444	-	369,444
Subtotal - Section 8 Project-Based Cluster	14.856	505,729	-	505,729
Resident Opportunity & Self Sufficiency (ROSS)				
CA063RPS094A015	14.870	87,294	-	87,294
Moving to Work				
Housing Assistance Payments Program:				
For Low Income Families				
Voucher CA063VO----/CA063AF0232	14.871	178,339,957	-	178,339,957
VASH Program - CA063VA001	14.871	9,646,539	-	9,646,539
HCV FSS Coord: CA063FSH069A016	14.871	204,402	-	204,402
HCV FSS Coord: FSS17CA1083-01-00	14.871	205,866	-	205,866
Subtotal - Housing Assistance Payments		188,396,764	-	188,396,764
Capital Fund				
Capital Fund Program: CA16-R063-501-11	14.872	6,000	-	6,000
Capital Fund Program: CA16-R063-501-13	14.872	227,720	-	227,720
Capital Fund Program: CA16-P063-501-15	14.872	161,132	-	161,132
Capital Fund Program: CA16-P063-501-16	14.872	1,577,071	-	1,577,071
Capital Fund Program: CA16-P063-501-17	14.872	961,224	-	961,224
Subtotal - Capital Fund		2,933,147	-	2,933,147
Operating Fund				
AMP 7 CA06300000716D	14.850A	86	-	86
AMP 7 CA06300000717D	14.850A	38,577	-	38,577
AMP 7 CA06300000718D	14.850A	36,288	-	36,288
AMP 8 CA06300000816D	14.850A	142	-	142
AMP 8 CA06300000817D	14.850A	44,254	-	44,254
AMP 8 CA06300000818D	14.850A	46,705	-	46,705
AMP 9 CA06300000916D	14.850A	148	-	148
AMP 9 CA06300000917D	14.850A	29,327	-	29,327
AMP 9 CA06300000918D	14.850A	50,513	-	50,513
AMP 10 CA06300001018D	14.850A	73,433	-	73,433
Subtotal - Operating Fund		319,473	-	319,473
Subtotal - Moving to Work	14.881 ¹	191,649,384	-	191,649,384

San Diego Housing Commission

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018**

<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>
<u>Family Unification Program (FUP)</u>				
Family Unification Program				
Contract: CA063FU0001	14.880	990,874	-	990,874
Subtotal - FUP		990,874	-	990,874
U.S. Department of Health and Human Services				
<u>State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)</u>				
Prevention & Public Health Funding (PPHF)				
FAIN U58DP005528	93.757	-	2,382	2,382
TOTAL		\$ 198,489,328	\$ 16,908,254	\$ 214,406,708

1 - audited as a major program
2 - includes subrecipient expenditures

See notes to Schedule of Expenditures of Federal Awards.

San Diego Housing Commission

Notes to Schedule of Expenditures of Federal Awards June 30, 2018

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 Presentation

The Schedule of Expenditures of Federal Awards (the "Schedule") presents the federal awards activity of SDHC under programs of the federal government. Federal awards received directly from federal agencies, as well as federal awards passed through from nonfederal agencies or other organizations are included in the Schedule. The information in the Schedule is presented in accordance with the 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"). As the Schedule presents only the federal award activity of SDHC, it is not intended to and does not present the financial position, changes in net position or cash flows of SDHC as a whole.

Significant Accounting Policies

The expenditures included in the Schedule are reported under the accrual basis of accounting. The expenditures are recognized in accordance with the cost principles contained in the Uniform Guidance. SDHC has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 - Reconciliation from the Statement of Revenues, Expenses and Changes in Net Position to the Schedule of Expenditures of Federal Awards

The amounts reported in the Schedule are reconciled with the amounts reported in SDHC's financial statements as follows (Dollars in Thousands):

Grant revenue	\$ 240,542
Less grants from City and local agencies	(25,895)
Less grants from state agencies	<u>(240)</u>
Grant revenue from federal sources	<u><u>\$ 214,407</u></u>

San Diego Housing Commission

Notes to Schedule of Expenditures of Federal Awards June 30, 2018

Note 4 - Federal Subrecipient Expenditures

The amounts reported in the Schedule includes the following subrecipient expenditures:

<u>Federal Grantor / Passthrough Grantor Program Title:</u>	<u>Federal CFDA Number</u>	<u>Subrecipient Expenditures Amount</u>
Continuum of Care	14.267	\$ 3,941,693
CDBG	14.218	1,606,113
Emergency Solutions Grant	14.231	<u>919,419</u>
Total Subrecipient Expenditures		<u><u>\$ 6,467,225</u></u>

Note 5 - 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, 2018 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>			
U.S. Department of Housing and Urban Development			
<u>Federal Housing Administration - Insured loans under Section 223(f)</u>			
FHA Insured Loan - Southern SDHC FHA LLC		FHA # 12911055	\$ 21,912,136
FHA Insured Loan - Northern SDHC FHA LLC		FHA # 12911053	15,328,186
FHA Insured Loan - Central SDHC FHA LLC		FHA # 12911054	<u>13,761,807</u>
TOTAL			<u><u>\$ 51,002,129</u></u>

San Diego Housing Commission
Schedule of Findings and Questioned Costs
June 30, 2018

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 federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? Yes x No

Identification of major programs:

CFDA Numbers(s)	Name of Federal Program or Cluster
14.218	CDBG
14.239	HOME Program
14.881	Moving to Work

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, 2018

B. Findings - Financial Statements Audit

None

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

None



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San Diego Housing Commission

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

June 30, 2018

November 5, 2018

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, 2018, and have issued our report thereon dated November 5, 2018.


Professional standards require that we provide you with the following information related to our audit:

- Our responsibilities under Generally Accepted Auditing Standards, *Government Auditing Standards* and Uniform Guidance
- Planned Scope and Timing of the Audit. We have communicated such information in our letter to you dated May 14, 2018.
- 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, 2018 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, CPA
Partner, CohnReznick LLP

Our Responsibilities under U.S. Generally Accepted Auditing Standards,
Government Auditing Standards and OMB Uniform Guidance

As stated in our engagement letter dated May 14, 2018, 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 but 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 each 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 SDHC'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 SDHC's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on SDHC'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 Matters

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, 2018 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, 2018. 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 sensitive estimates affecting the financial statements were:

- The collectability of notes, mortgages and accounts receivable and the allowances for losses and forgiveness 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 annual 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 statement users. The most sensitive disclosures affecting the financial statements are included in notes 1 through 20 to the financial statements.

The financial statement disclosures 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 clearly trivial, and communicate them to the appropriate level of management. 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 5, 2018.

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. Such information has 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 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.

Very truly yours,

CohnReznick LLP

Sacramento, California
November 5, 2018

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

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

June 30, 2018 and 2017

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

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

June 30, 2018

Certificate of Owner

I, as an officer of the San Diego Housing Commission, owner of Otay Villas Housing Development, hereby certify that I have examined the accompanying financial statements and supplementary information of Otay Villas Housing Development as of and for the year ended June 30, 2018 and, to the best of my knowledge and belief, these financial statements and supplementary information are complete and accurate.

San Diego Housing Commission

A handwritten signature in black ink, appearing to read 'Tracey McDermott', is written over a horizontal line.

Tracey McDermott, Sr. Vice President and
Chief Financial Officer

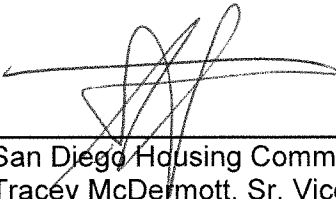
Employer Identification Number: 95-3390896

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

June 30, 2018

Managing Agent's Certification

I hereby certify that I have examined the accompanying financial statements and supplementary data of Otay Villas Housing Development as of and for the year ended June 30, 2018, to the best of my knowledge and belief, the same are complete and accurate.



San Diego Housing Commission
Tracey McDermott, Sr. Vice President and
Chief Financial Officer

9/26/2018

Date

Independent Auditor's Report

To the Board of Commissioners
San Diego Housing Commission

Report on the Financial Statements

We have audited the accompanying financial statements of Otay Villas Housing Development Project No. 12-HLCP-0003 (the "Project") owned by San Diego Housing Commission ("SDHC"), which comprise the statements of net position as of June 30, 2018 and 2017, and the related statements of revenue, expenses and changes in net position and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Diego Housing Commission's Otay Villas Housing Development Project No. 12-HLCP-0003 as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2, the financial statements referred to above present only the financial position and changes in financial position of the Project and do not purport to, and do not, present fairly, the financial position of SDHC as of June 30, 2018 and 2017 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 17 to 25 as required by the California Department of Housing and Community Development is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2018, on our consideration of SDHC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 SDHC'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 SDHC's internal control over financial reporting and compliance.



Sacramento, California
September 26, 2018

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

Statements of Net Position
June 30, 2018 and 2017

	<u>Assets</u>	
	2018	2017
Current assets		
Cash and cash equivalents	\$ 257,962	\$ 139,407
Tenants' accounts receivable, net	2,091	4,026
Accounts receivable - other	1,741	1,496
Total current assets	261,794	144,929
Other assets		
Restricted deposits and funded reserves	992,082	958,844
Total other assets	992,082	958,844
Capital assets		
Buildings and improvements	5,923,717	5,923,717
Accumulated depreciation	(2,818,261)	(2,507,131)
	3,105,456	3,416,586
Land	1,087,727	1,087,727
Total capital assets	4,193,183	4,504,313
Total assets	\$ 5,447,059	\$ 5,608,086

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

**Statements of Net Position
June 30, 2018 and 2017**

	<u>Liabilities</u>	
	2018	2017
Current liabilities		
Accounts payable - operations	\$ 27,010	\$ 27,888
Accrued expenses	3,029	5,695
Accrued interest payable - first mortgage, current	13,230	13,230
Prepaid rent	3,049	6,247
Total current liabilities	46,318	53,060
Deposits and prepaid liability		
Tenants' security deposits liability	41,207	40,934
Total deposits and prepaid liability	41,207	40,934
Long-term liabilities		
Mortgage payable - first mortgage	3,150,000	3,150,000
Accrued interest payable - first mortgage, net of current portion	404,103	322,833
Total long-term liabilities	3,554,103	3,472,833
Total liabilities	\$ 3,641,628	\$ 3,566,827
<u>Net Position</u>		
Net investment in capital assets	\$ 1,043,183	\$ 1,354,313
Restricted for operating and replacement reserves	753,721	712,412
Unrestricted	8,527	(25,466)
Total net position	1,805,431	2,041,259
Total liabilities and net position	\$ 5,447,059	\$ 5,608,086

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

Statements of Revenue, Expenses and Changes in Net Position
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenue		
Rental income	\$ 414,317	\$ 401,134
Other operating income	<u>93,093</u>	<u>97,062</u>
Total operating revenue	<u>507,410</u>	<u>498,196</u>
Operating expenses		
Administrative	156,737	130,831
Utilities	144,828	101,975
Operating and maintenance	145,289	143,698
Taxes and insurance	47,519	45,795
Depreciation	<u>311,130</u>	<u>263,551</u>
Total operating expenses	<u>805,503</u>	<u>685,850</u>
Net operating loss	<u>(298,093)</u>	<u>(187,654)</u>
Nonoperating revenue (expense)		
Financial revenue - investments	13,217	4,556
Interest expense - first mortgage	<u>(94,500)</u>	<u>(94,500)</u>
Total nonoperating revenue (expense)	<u>(81,283)</u>	<u>(89,944)</u>
Change in net position before capital transactions	(379,376)	(277,598)
Contributions	<u>143,548</u>	<u>842,266</u>
Change in net position	(235,828)	564,668
Net position		
Beginning of year	<u>2,041,259</u>	<u>1,476,591</u>
End of year	<u><u>\$ 1,805,431</u></u>	<u><u>\$ 2,041,259</u></u>

See Notes to Financial Statements.

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

Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Cash received from tenants and operations	\$ 486,208	\$ 496,490
Less cash payments for operations and administration		
Administrative expenses paid	(44,820)	(38,322)
Management fee and sponsor overhead paid	(61,996)	(59,045)
Utilities paid	(142,429)	(101,969)
Salaries and wages paid	(94,535)	(82,930)
Operating and maintenance paid	(86,679)	(82,880)
Property insurance paid	(11,810)	(11,889)
Net tenant security deposits received (paid)	273	1,984
Other operating expenses paid	(35,709)	(33,906)
	<u>(477,705)</u>	<u>(408,957)</u>
Cash payments for operations		
Net cash provided by operating activities	<u>8,503</u>	<u>87,533</u>
Cash flows from capital and related financing activities		
Contributions from owner	143,548	842,266
Acquisition and construction of capital assets	-	(856,439)
Interest paid	(13,230)	(13,230)
	<u>(13,230)</u>	<u>(13,230)</u>
Net cash provided by (used in) capital and related financing activities	<u>130,318</u>	<u>(27,403)</u>
Cash flows from investing activities		
Net deposits to replacement reserve	(40,438)	(66,898)
Net deposits to operating reserve	(871)	(867)
Interest on investments	12,972	4,500
Net sales of investments	8,071	46,991
	<u>(20,266)</u>	<u>(16,274)</u>
Net cash used in investing activities		
Net increase in cash and cash equivalents	118,555	43,856
Cash and cash equivalents, beginning	<u>139,407</u>	<u>95,551</u>
Cash and cash equivalents, end	<u>\$ 257,962</u>	<u>\$ 139,407</u>

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

Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Reconciliation of net operating loss to net cash provided by operating activities		
Net operating loss	\$ (298,093)	\$ (187,654)
Adjustments to reconcile net operating loss to net cash provided by operating activities		
Depreciation	311,130	263,551
Bad debt	4,711	(2,071)
Changes in		
Tenants' accounts receivable	(2,776)	2,846
Prepaid revenue	(3,198)	2,407
Accounts payable - operations	(878)	3,256
Accrued expenses	(2,666)	3,214
Tenants' security deposits liability	273	1,984
	<u> </u>	<u> </u>
Net cash provided by operating activities	<u>\$ 8,503</u>	<u>\$ 87,533</u>

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

**Notes to Financial Statements
June 30, 2018 and 2017**

Note 1 - The financial reporting entity

The San Diego Housing Commission ("SDHC")'s Otay Villas Housing Development Project consists of a 78-unit rental housing project (the "Project") located in San Diego, California. SDHC entered into a regulatory agreement and permanent loan agreement with the California Department of Housing and Community Development ("RHCP"). Under the terms of the agreements, SDHC is to submit to RHCP an annual budget of the operating revenue and operating expenses for the Project. In May 2013, SDHC and RHCP amended the original agreements and entered into a new regulatory and loan agreement under which the previous loan was refinanced and the new permanent loan was extended for a period of 55 years.

Note 2 - Significant accounting policies

Basic financial statements

The basic financial statements (i.e. the statements of net position, the statements of revenue, expenses and changes in net position and the statements of cash flows) report information on all of the activities of the Project. These basic financial statements are presented in accordance with the Governmental Accounting Standards Board standards. The accompanying financial statements are not intended to present fairly the financial position or changes in financial position and cash flows of SDHC in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Measurement focus, basis of accounting and financial statement presentation

The basic financial statements of the Project are prepared using the economic resource measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources and liabilities and deferred inflows of resources are included on the statement of net position. The statement of revenue, expenses and changes in net position presents increases (revenue) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenue are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

The Project distinguishes operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services in connection with the Project's ongoing operations. The principal operating revenue of the Project is rental income from the tenants of its housing units. Operating expenses for the Project include the cost of services and general and administrative expenses. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses. When both restricted and unrestricted resources are available for use, it is the Project's policy to use restricted resources first, then unrestricted resources as needed.

Cash and cash equivalents

The Project cash and cash equivalents are maintained within the general operating bank account of SDHC. The ending balance of the operating account is allocated between several projects of SDHC based upon each project's relative cash activities. The reconciled balance of SDHC general cash account is \$27,882,935 and \$16,987,264 of which \$257,962 and \$139,407 belongs to the Project as of June 30, 2018 and 2017, respectively.

Otay Villas Housing Development
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Notes to Financial Statements
June 30, 2018 and 2017

Restricted deposits and reserves

The Project restricted deposits and reserves represent deposits to lender required reserves for replacements, operating reserve and tenant security deposits. The Project's restricted deposits and reserves are invested along with other SDHC funds to maximize income consistent with safe and prudent investment practices within the guidelines of SDHC's investment policy.

In accordance with California state statute and U.S. Department of Housing and Urban Development ("HUD") regulations, SDHC has authorized the Chief Financial Officer or designee to invest in obligations of the U.S. Treasury, U.S. Government agencies or other investments as outlined in SDHC's Investment Policy. An Investment Committee, consisting of two Commission Board members, monitors the management of funds and compliance with SDHC's Investment Policy. SDHC utilizes the services of an experienced financial advisor to aid in making investment decisions. Working with the Investment Committee and staff, the advisor provides guidance on creating a diversified portfolio and a secure investment mix. The advisor's ongoing role is to provide staff with sound investment opportunities that will maximize liquidity and yield without sacrificing principal value and safety of the investment securities.

All investments are stated at fair value, except for money market investments with remaining maturities less than one year when purchased, which are stated at amortized cost. Money market investments are short-term, highly-liquid debt securities, such as bankers' acceptances, commercial paper, repurchase agreements, negotiable certificates of deposit and U.S. Treasury obligations. Fair value is the value at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Detailed disclosures, including investment policies and associated risk policies, regarding the Project's cash and cash equivalents, restricted deposits and reserves, and investments are included in the notes to SDHC's basic financial statements.

Fair value

Authoritative guidance establishes hierarchy for ranking the quality and reliability of the information used to determine fair values, requiring that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted market prices for identical assets or liabilities in active markets.

Level 2: Unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3: Significant unobservable inputs for the asset or liability.

Resident accounts receivable

Resident accounts receivable are due from tenants and reported net of an allowance for doubtful accounts. Management's estimate of the allowance is based on historical collection experience and a review of the current status of the receivables. It is reasonably possible that management's estimate of the allowance will change. The allowance for doubtful accounts was \$376 and \$767 as of June 30, 2018 and 2017, respectively.

**Otay Villas Housing Development
Project No. 12-HLCP-0003
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**Notes to Financial Statements
June 30, 2018 and 2017**

Capital assets

Capital assets are stated at cost. The capitalization threshold for all capital assets is \$5,000. Expenditures for repairs and maintenance are charged to operations as incurred while major renewals and betterments are capitalized. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Building and improvements	40 years
Furnishings and equipment	5 years

Impairment of capital assets

SDHC reviews the capital assets of the Project for impairment whenever events or changes in circumstances indicate that there has been a decline in service utility that is large in magnitude and outside of the normal life cycle of the capital asset being evaluated. There has been no impairment of the capital assets as of June 30, 2018 and 2017.

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. The Project received \$79,988 and \$83,293 operating subsidy income that is included in other revenue in the statements of revenue, expenses and changes in net position for the years ended June 30, 2018 and 2017, respectively. Due to the receipt of the HUD operating subsidy, the Project no longer receives annuity income from RHCP.

Net position

In the statement of net position, net assets are classified in the following categories:

Net Investment in Capital Assets - This amount consists of capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted - This amount is all net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

Use of estimates

The preparation of financial statements in accordance with 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 year. Actual results could differ from those estimates.

**Otay Villas Housing Development
Project No. 12-HLCP-0003
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**Notes to Financial Statements
June 30, 2018 and 2017**

Note 3 - Restricted deposits and funded reserves

As of June 30, 2018 and 2017, the restricted deposits and reserves consist of the following:

Tenant security deposits

The Project collects security deposits from tenants at the inception of the tenant lease. These deposits, which are reported in the basic financial statements as restricted cash, are refundable to the tenants to the extent there are no unpaid rents or damages to the housing unit. Tenant security deposits held amounted to \$41,207 and \$40,511 as of June 30, 2018 and 2017, respectively.

Replacement reserve

The Project shall establish and fund a replacement reserve account for the term of the regulatory agreement. The replacement reserve shall be funded in the initial amount of \$78,000 to provide for future major additions, repairs or replacements. The Project shall make annual deposits of \$46,800 per year. The replacement reserve balance is \$535,258 and \$494,820 as of June 30, 2018 and 2017, respectively. During the years ended June 30, 2018 and 2017, the replacement reserve activity was as follows:

	2018	2017
Beginning balance	\$ 494,820	\$ 427,922
Deposits (\$600 x 78 units)	46,800	46,800
Project cash flow	(8,528)	18,199
Interest earned	2,166	1,899
Ending balance	<u>\$ 535,258</u>	<u>\$ 494,820</u>

Operating reserve

The Project shall establish and fund an operating reserve account pursuant the regulatory agreement. The operating reserve shall be funded by previous project cash flow and RHCP annuity payments. The operating reserve balance is \$218,463 and \$217,592 as of June 30, 2018 and 2017, respectively.

Other investments

The Project has other investments with a balance of \$197,154 and \$205,921 as of June 30, 2018 and 2017, respectively.

In accordance with SDHC's investment policy, the restricted deposits and reserves above are invested in the State's Local Agency Investment Fund ("LAIF"), the San Diego County Investment Pool ("SDCIP") and other investments such as bonds, government agency securities and demand deposit accounts safe kept with commercial banking institutions. The detailed disclosures including investment policies and associated risk for each of these investments are included in the notes to SDHC's basic financial statements.

Otay Villas Housing Development
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Notes to Financial Statements
June 30, 2018 and 2017

Note 4 - Mortgage payable

Mortgage payable to RHCP associated with the acquisition of the Project is in the amount of \$3,150,000. Repayment of the interest and any outstanding principal balance is due in its entirety on the maturity date of May 10, 2068. The note bears interest of 3.00% and is payable in the annual amount of 0.42% of the outstanding principal balance (\$13,230 per year). Interest expense was \$94,500 for each of the years ended June 30, 2018 and 2017. Outstanding principal and accrued interest is \$3,150,000 and \$417,333, respectively, as of June 30, 2018 and \$3,150,000 and \$336,063, respectively, as of June 30, 2017.

Note 5 - Management fee and sponsor overhead

The Project incurs management fees and overhead costs from SDHC for central office services which includes but is not limited to clerical and management overhead expenses, such as salaries and benefits, office supplies and equipment, data processing or computer services, postage, training and telephone services. This does not include the salary of the project manager whether onsite or offsite. SDHC allocated to the Project management fees and overhead expenses in the amount of \$61,996 and \$59,045 for the years ended June 30, 2018 and 2017, respectively.

Note 6 - Concentration of credit risk

The Project maintains its cash and cash equivalents with various financial institutions. At times, these balances may exceed the federal insurance limits; however, the Project has not experienced any losses with respect to its bank balances in excess of government provided insurance. The Project Owner believes that no significant concentration of credit risks exists with respect to these cash balances at June 30, 2018.

Note 7 - Current vulnerability due to certain concentrations

The Project's principal assets consist of 78 units within various apartment projects. The Project's operations are concentrated in the multifamily real estate market. In addition, the Project operates in a heavily regulated environment. The operations of the Project are subject to the administrative directives, rules and regulations of governmental agencies, including, but not limited to HUD or RHCP. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD or RHCP. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

Note 8 - Subsequent events

Events that occur after the date of the statement of net position but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the date of the statement of net position are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the date of the statement of net position require disclosure in the accompanying notes. Management evaluated the activity of the Project through September 26, 2018, the date the financial statements were available to be issued, and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to financial statements.

Supplementary Information
Supporting Data Required by RHCP

**Otay Villas Housing Development
Project No. 12-HLCP-0003
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**Supplementary Information
Years Ended June 30, 2018 and 2017**

Schedules of Operating Revenue

<u>Account No.</u>	<u>2018</u>	<u>2017</u>
Rental revenue		
5120 Rent revenue - gross potential	\$ 414,317	\$ 401,134
5100T Total rental revenue	414,317	401,134
5152N Net rental revenue	414,317	401,134
5300 Nursing home/assisted living/board and care/other elderly care/coop and other revenue	-	-
Financial revenue		
5410 Financial revenue - project operations	10,180	1,790
5440 Revenue from investments - replacement reserve	2,166	1,899
5490 Revenue from investments - miscellaneous	871	867
5400T Total financial revenue	13,217	4,556
Other revenue		
5910 Laundry and vending	7,805	11,425
5920 Tenant charges	5,300	2,344
5990 Miscellaneous revenue (if over \$2,500, detail is required)	79,988	83,293
5900T Total other revenue	93,093	97,062
5000T Total revenue	520,627	502,752

**Otay Villas Housing Development
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**Supplementary Information
Years Ended June 30, 2018 and 2017**

Schedules of Operating Expenses

<u>Account No.</u>	<u>2018</u>	<u>2017</u>
Administrative expenses		
6250 Other renting expenses	1,644	1,040
6310 Office salaries	30,921	28,456
6311 Office expenses	8,370	5,755
6320 Management fee	61,996	59,045
6331 Administrative rent free unit	15,228	6,959
6340 Legal expense - project	3,283	1,031
6350 Auditing expense	7,000	7,000
6351 Bookkeeping fees/accounting services	22,241	21,107
6370 Bad debts	4,711	(2,071)
6390 Miscellaneous administrative expenses	1,343	2,509
6263T Total administrative expenses	<u>156,737</u>	<u>130,831</u>
Utilities expense		
6450 Electricity	18,984	13,864
6451 Water	52,204	45,641
6452 Gas	13,043	12,190
6453 Sewer	60,597	30,280
6400T Total utilities expense	<u>144,828</u>	<u>101,975</u>
Operating and maintenance expenses		
6510 Payroll	38,925	31,404
6515 Supplies	12,470	3,721
6520 Contracts	54,972	70,205
6525 Garbage and trash removal	16,271	11,839
6530 Security payroll/contract	22,023	26,284
6570 Vehicle and maintenance equipment operation and repairs	628	245
6500T Total operating and maintenance expenses	<u>145,289</u>	<u>143,698</u>

Otay Villas Housing Development
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Supplementary Information
Years Ended June 30, 2018 and 2017

<u>Account No.</u>	<u>2018</u>	<u>2017</u>
Taxes and insurance		
6720 Property and liability insurance	11,810	11,889
6722 Workmen's compensation	4,322	3,866
6723 Health insurance and other employee benefits	31,387	30,040
6700T Total taxes and insurance	47,519	45,795
Financial expenses		
6820 Interest on first mortgage payable	94,500	94,500
6800T Total financial expenses	94,500	94,500
6000T Total cost of operations before depreciation	588,873	516,799
5060T Income (loss) before depreciation	(68,246)	(14,047)
Depreciation		
6600 Depreciation expense	311,130	263,551
Total depreciation	311,130	263,551
5060N Operating income (loss)	(379,376)	(277,598)
Total expenses	900,003	780,350
3250 Change in net assets	\$ (379,376)	\$ (277,598)

**Otay Villas Housing Development
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**Supplementary Information
Years Ended June 30, 2018 and 2017**

Detail of Accounts - Schedules of Activities

	<u>2018</u>	<u>2017</u>
Revenue from Investments - Miscellaneous (Account No. 5490)		
Interest earned - operating reserve	\$ 871	\$ 867
	<u>\$ 871</u>	<u>\$ 867</u>
Miscellaneous Other Revenue (Account No. 5990)		
HUD operating subsidy	\$ 79,988	\$ 83,293
	<u>\$ 79,988</u>	<u>\$ 83,293</u>
Miscellaneous Administrative Expenses (Account No. 6390)		
Travel	\$ 55	\$ 736
Professional consultant	237	348
Mileage reimbursement	820	95
Parking fees and permits	91	136
Training	62	1,186
Education and training	3	8
Gym membership	75	-
	<u>\$ 1,343</u>	<u>\$ 2,509</u>

Otay Villas Housing Development
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Supplementary Information
Year Ended June 30, 2018

Cash on Hand and in Banks

Unrestricted cash operating accounts	
Operating account	\$ 257,962
	<u>\$ 257,962</u>
Restricted cash accounts	
Tenant security deposits	\$ 41,207
Replacement reserve	535,258
Other reserves	218,463
Investments	197,154
	<u>\$ 992,082</u>

Mortgage Impound Accounts

None.

Reserves for Replacement and Operating Expenses

	Replacement reserve	Operating reserve
Balance as of June 30, 2017	\$ 494,820	\$ 217,592
Deposits (\$600 x 78 units)	46,800	-
Project cash flow	(8,528)	-
Interest earned	2,166	871
	<u>\$ 535,258</u>	<u>\$ 218,463</u>
Balance as of June 30, 2018	<u>\$ 535,258</u>	<u>\$ 218,463</u>

Property, Equipment and Improvements

Following are the details of property, equipment and improvements:

	#N/A	Additions	Deletions	Balance 6/30/18
Land	\$ 1,087,727	\$ -	\$ -	\$ 1,087,727
Buildings	5,923,717	-	-	5,923,717
	<u>\$ 7,011,444</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,011,444</u>

**Otay Villas Housing Development
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**Supplementary Information
Year Ended June 30, 2018**

Accounts Payable and Accrued Expenses

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

Current	\$ 20,579
31 to 60 days	1,471
61 to 90 days	4,000
Over 90 days	960
	<hr/>
Total	<u>\$ 27,010</u>

Gross Potential Rents

Gross potential rents includes the following:

Tenant rental payments	\$ 394,378
Tenant assistance payments	-
Rent free units	15,228
Vacancy loss and rent concessions	-
Bad debt	4,711
	<hr/>
Total gross potential rents	<u>\$ 414,317</u>

Management Fee

The management fee and sponsor overhead authorized by RHCP totals \$61,996 and \$59,045 for the years ended June 30, 2018 and 2017, respectively.

**Otay Villas Housing Development
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A project of San Diego Housing Commission**

**Supplementary Information
Year Ended June 30, 2018**

Operating Cash Flow/Surplus Cash Computation

Operating income	
Total income	\$ 520,627
Interest earned on restricted reserve accounts	(3,037)
	<u>517,590</u>
Adjusted operating income	517,590
Operating expenses	<u>(494,373)</u>
Adjusted net income	23,217
Other activity	
Mandatory debt service	
RHCP	(13,230)
Deposits into replacement reserve account	(46,800)
	<u>(60,030)</u>
Total other activity	(60,030)
Operating cash flow/surplus cash	<u><u>\$ (36,813)</u></u>

Reconciliation to RHCP Form 181

Total operating revenue	\$ 507,410
Interest income	13,217
Less interest on reserves	(3,037)
	<u>517,590</u>
Effective gross rent per RHCP Form 181	<u><u>\$ 517,590</u></u>

Reconciliation to RHCP Form 180

Total operating expenses	\$ 805,503
Add back bad debt recovery	(4,711)
Less depreciation	(311,130)
Other difference	(989)
	<u>488,673</u>
Total operating costs per RHCP Form 180	<u><u>\$ 488,673</u></u>

Rental Housing Construction Program -- Original
6. AMC 180a - ACTUAL COST OF OPERATIONS - Operating Budget/Annual Report

Contract No: 80-RHC-026

Reporting Period: 7/1/17 to 6/30/18

Project Name: Otay Villas

Prepared by: Maria Gimutao

Date Prepared: 8/8/18

Rev 9/28/16

ACCOUNT NAME		UNIT EXPENSES					
	ACCOUNT CODES	Approved Assisted (A)	Actual Assisted	Approved Non-Assisted	Actual Non-Assisted	Proposed Commercial	Actual Commercial
MANAGEMENT FEE: 6200/6300							
1 Management Fee or Sponsor Overhead	6320	17,486	17,486	44,511	44,511	0	0
ADMINISTRATIVE EXPENSES: 6200/6300							
2 Advertising	6210	476	0	1,212	0	0	0
3 Apartment Resale Expense (Cooperatives)	6235	0	0	0	0	0	0
4 Other Renting Expenses	6250	63	343	162	873	0	0
5 Office Salaries	6310	14,165	1,430	36,055	3,639	0	0
6 Office Supplies	6311	1,429	497	3,636	1,266	0	0
7 Office or Model Apartment Rent	6312	0	0	0	0	0	0
8 Manager and Superintendent Salaries	6330	6,887	8,577	17,529	21,832	0	0
9 Manager's or Superintendent's Rent Free Unit	6331	4,295	4,295	10,933	10,933	0	0
10 Legal Expense - Project	6340	238	515	607	1,310	0	0
11 Audit Expense - Project	6350	420	1,974	1,069	5,026	0	0
12 Bookkeeping Fees/Accounting Services	6351	3,174	6,273	8,080	15,968	0	0
13 Telephone and Answering Service Expenses	6360	286	1,918	728	4,883	0	0
14 Bad Debt Expense	6370	0	0	0	0	0	0
15 Miscellaneous Administrative Expenses (specify)	6390	2,032	1,018	5,171	2,590	0	0
16 TOTAL ADMINISTRATIVE EXPENSES	6200/6300T	33,465	26,840	85,182	68,320	0	0
UTILITIES EXPENSES: 6400							
17 Fuel Oil/Coal	6420	0	0	0	0	0	0
18 Electricity	6450	4,261	5,354	10,847	13,629	0	0
19 Water	6451	10,336	14,724	26,311	37,480	0	0
20 Gas	6452	3,738	3,679	9,515	9,364	0	0
21 Sewer	6453	11,488	17,091	29,241	43,505	0	0
22 TOTAL UTILITIES EXPENSES	6400T	29,823	40,849	75,914	103,978	0	0
OPERATING AND MAINTENANCE EXPENSES: 6500							
23 Janitor and Cleaning Payroll	6510	0	0	0	0	0	0
24 Janitor and Cleaning Supplies	6515	0	0	0	0	0	0
25 Janitor and Cleaning Contracts	6517	1,558	1,987	3,966	5,058	0	0
26 Exterminating Payroll/Contract	6519	1,263	434	3,216	1,106	0	0
27 Exterminating Supplies	6520	0	0	0	0	0	0
28 Garbage and Trash Removal	6525	3,619	4,792	9,211	12,197	0	0
29 Security Payroll/Contract	6530	6,432	6,212	16,372	15,811	0	0
30 Grounds Payroll	6535	0	0	0	0	0	0
31 Grounds Supplies	6536	0	0	0	0	0	0
32 Grounds Contract	6537	6,911	7,764	17,590	19,762	0	0
33 Repairs Payroll	6540	8,658	12,376	22,039	31,502	0	0
34 Repairs Material	6541	3,746	3,160	9,534	8,043	0	0
35 Repairs Contract	6542	6,902	2,963	17,570	7,543	0	0
36 Elevator Maintenance/Contract	6545	0	0	0	0	0	0
37 Heating/Cooling Repairs and Maintenance	6546	0	0	0	0	0	0
38 Swimming Pool Maintenance/Contract	6547	0	0	0	0	0	0
39 Snow Removal	6548	0	0	0	0	0	0
40 Decorating/Payroll Contract	6560	1,992	310	5,071	790	0	0
41 Decorating Supplies	6561	0	1,450	0	3,692	0	0
42 Vehicle and Maint. Equipment Operation/Repairs	6570	25	487	65	1,241	0	0
43 Misc. Operating and Maintenance Expenses (specify)	6590	0	0	0	0	0	0
44 TOTAL OPERATING & MAINTENANCE EXPENSES	6500T	41,106	41,936	104,634	106,745	0	0
TAXES AND INSURANCE: 6700							
45 Real Estate Taxes	6710	0	0	0	0	0	0
46 Payroll Taxes (Project's Share)	6711	0	0	0	0	0	0
47 Misc. Taxes, Licenses and Permits	6719	0	0	0	0	0	0
48 Property and Liability Insurance (Hazard)	6720	3,376	3,331	8,595	8,479	0	0
49 Fidelity Bond Insurance	6721	0	0	0	0	0	0
50 Worker's Compensation	6722	0	1,219	0	3,102	0	0
51 Health Insurance and Other Employee Benefits	6723	6,056	6,170	15,415	15,707	0	0
52 Other Insurance	6729	0	0	0	0	0	0
53 TOTAL TAXES AND INSURANCE	6700T	9,432	10,720	24,010	27,288	0	0
ASSISTED LIVING/BOARD & CARE EXPENSES: 6900							
54 Food	6932	0	0	0	0	0	0
55 Recreation and Rehabilitation	6980	0	0	0	0	0	0
56 Rehabilitation Salaries	6983	0	0	0	0	0	0
57 Other Service Expenses	6990	0	0	0	0	0	0
58 TOTAL ASSISTED LIVING EXPENSES	6900T	0	0	0	0	0	0
61 TOTAL OPERATING COSTS		131,313	137,831	334,250	350,842	0	0
Line #	For each account below, itemize the expenses (total will flow to account above)						Amount
62	Account 6390 Miscellaneous Administrative Expenses						
63							
64							
65							
66	Total Account 6390 Miscellaneous Administrative Expenses						\$0
67	Account 6590 Miscellaneous Operations & Maintenance Expenses						
68							
69							
70							
71	Total Account 6590 Miscellaneous Operations & Maintenance Expenses						\$0
72	Account 6729 Other Insurance						
73	Total Account 6729 Other Insurance						\$0

Rental Housing Construction Program -- Original
7. AMC 181a - ACTUAL CASH FLOW ANALYSIS - Operating Budget/Annual Report

Contract No: 80-RHC-026
Project Name: Otay Villas
Prepared by: Maria Gimutao
Date Prepared: 8/8/18

Reporting Period: 7/1/17 to 6/30/18

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

Rev 9/28/16

Unit Months: 936

ACCOUNT NAME		ASSISTED UNITS		NON-ASSISTED UNITS		COMMERCIAL		TOTAL PROJECT		PROJECT VARIANCE
	Account Codes	Approved Cashflow (A)	Actual Cashflow (B)	Approved Cashflow (C)	Actual Cashflow (D)	Proposed Cashflow (E)	Actual Cashflow (F)	Approved Cashflow (G)	Actual Cashflow (H)	Cashflow Variance (I)
REVENUE ACCOUNTS/RENT REVENUE: 5100										
1 Rent Revenue	5120	119,004	116,859	316,980	297,458	0	0	435,984	414,317	(21,667)
2 Tenant Assistance Payments	5121	17,734	22,561	45,131	57,427	0	0	62,865	79,988	17,123
3 Rent revenue - Stores and Commercial	5140	0	0	0	0	0	0	0	0	0
4 Garage and Parking Spaces	5170	0	0	0	0	0	0	0	0	0
5 Flexible Subsidy Revenue	5185	0	0	0	0	0	0	0	0	0
6 Miscellaneous Rent Revenue	5190	0	0	0	0	0	0	0	0	0
7 Excess Rent	5191	0	0	0	0	0	0	0	0	0
8 Rent Revenue/Insurance	5192	0	0	0	0	0	0	0	0	0
9 Special Claims Revenue	5193	0	0	0	0	0	0	0	0	0
10 Retained Excess Income	5194	0	0	0	0	0	0	0	0	0
11 GROSS RENT REVENUE	5100T	136,738	139,419	362,111	354,886	0	0	498,849	494,305	(4,544)
VACANCIES: 5200										
Vacancy Percentage:		0	0	0	0	0	0			
11 Apartments -	5220					0	0			
12 Stores and Commercial	5240					0	0			
13 Rental Concessions	5250					0	0			
14 Garage and Parking Spaces	5270					0	0			
15 Miscellaneous	5290					0	0			
Total Vacancies (HCD Use Only)	5200T	0	0	0	0	0	0	0	0	0
ASSISTED LIVING/BOARD & CARE REVENUES: 5300										
17 Food	5332	0	0	0	0	0	0	0	0	0
18 Recreation (Activities) and Rehabilitation	5380	0	0	0	0	0	0	0	0	0
19 Rehabilitation	5385	0	0	0	0	0	0	0	0	0
20 Other Service Revenue	5390	0	0	0	0	0	0	0	0	0
Total Living Revenue	6300T	0	0	0	0	0	0	0	0	0
FINANCIAL REVENUE: 5400										
21 Financial Revenue - Project Operations	5410	1,091	2,871	2,775	7,309	0	0	3,866	10,180	6,314
Total Financial Revenue	5400T	1,091	2,871	2,775	7,309	0	0	3,866	10,180	6,314
OTHER REVENUE: 5900										
22 Laundry and Vending Revenue	5910	2,694	2,201	6,857	5,603	0	0	9,551	7,805	(1,746)
23 NSF and Late Charges	5920	1,086	1,495	2,764	3,805	0	0	3,850	5,300	1,450
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
Total Other Revenue	5900T	3,780	3,696	9,621	9,408	0	0	13,401	13,105	(296)
27 EFFECTIVE GROSS RENT (EGR)	5152T	141,609	145,987	374,507	371,603	0	0	516,116	517,590	1,474
28 TOTAL OPERATING EXPENSES	6000T	135,252	137,831	344,278	350,842	0	0	479,530	488,673	(9,143)
29 NET OPERATING INCOME (NOI)	5000T	6,357	8,156	30,229	20,761	0	0	36,586	28,917	(7,669)
FINANCIAL EXPENSES: 6800										
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	13,230	13,230	0	0	13,230	13,230	0
32 Lease Payment	6890	0	0	0	0	0	0	0	0	0
33 Miscellaneous Financial Expenses	6890	0	0	0	0	0	0	0	0	0
Total Financial Expenses	6800T	0	0	13,230	13,230	0	0	13,230	13,230	0
FUNDED RESERVES:										
34 Escrow Deposits	1300									
35 Replacement Reserve-Deposit	1310	0	0	0	0	0	0	0	0	0
36 Operating Reserve-Deposit	1320	13,202	13,200	33,598	33,600	0	0	46,800	46,800	0
37 Other Reserves (specify)	1300	0	0	0	0	0	0	0	0	0
#1	1330	0	0	0	0	0	0	0	0	0
#2	1330	0	0	0	0	0	0	0	0	0
#3	1330	0	0	0	0	0	0	0	0	0
Total Reserve Deposits		13,202	13,200	33,598	33,600	0	0	46,800	46,800	0
38 PROJECT CASH FLOW (CF)		(6,845)	(5,044)	(16,599)	(26,069)	0	0	(23,444)	(31,113)	(7,669)
ADDITIONAL REVENUE:										
39 RHCP-O Annuity Fund Request (For Assisted Units Only)		0	0	0	0	0	0	0	0	0
40 Withdrawal from Operating Reserves		0	0	0	0	0	0	0	0	0
41 Borrower Contribution		0	0	0	0	0	0	0	0	0
42 Other (specify)		0	0	0	0	0	0	0	0	0
Total Additional Revenue		0	0	0	0	0	0	0	0	0
USE OF CASH FLOW:										
43 HCD Interest Payments		0	0	0	0	0	0	0	0	0
44 Asset Mgmt Fee (CHRP-R/SUHRP & HOME-pre-UMR Only)		0	0	0	0	0	0	0	0	0
45 Asset Mgmt Fee/Prtshp Costs (MHP/HOME under UMR)		0	0	0	0	0	0	0	0	0
46 Borrower Distributions		0	0	0	0	0	0	0	0	0
47 Residual Receipt Loan Payments		0	0	0	0	0	0	0	0	0
48 Other (specify)		0	0	0	0	0	0	0	0	0
Total Use of Cash Flow		0	0	0	0	0	0	0	0	0

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

To the Board of Commissioners
San Diego Housing Commission

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of San Diego Housing Commission's ("SDHC's") Otay Villas Housing Development Project No. 12-HLCP-0003 (the "Project"), which comprise the statement of net position as of June 30, 2018, and the related statements of revenue, 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 September 26, 2018 which included an emphasis of matter paragraph as indicated on page 5.

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 Project's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Project's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SDHC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CohnReznick LLP

Sacramento, California
September 26, 2018



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**Adaptable Housing Development
Project No. 12-HLCP-0004
A Project of San Diego Housing Commission**

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

June 30, 2018 and 2017

**Adaptable Housing Development
Project No. 12-HLCP-0004
A Project of San Diego Housing Commission**

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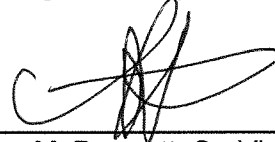
**Adaptable Housing Development
Project No. 12-HLCP-0004
A Project of San Diego Housing Commission**

June 30, 2018

Certificate of Owner

I, as an officer of the San Diego Housing Commission, owner of Adaptable Housing Development, hereby certify that I have examined the accompanying financial statements and supplementary information of Adaptable Housing Development as of and for the year ended June 30, 2018 and, to the best of my knowledge and belief, these financial statements and supplementary information are complete and accurate.

San Diego Housing Commission

A handwritten signature in black ink, appearing to be 'Tracey McDermott', written over a horizontal line.

Tracey McDermott, Sr. Vice President and
Chief Financial Officer

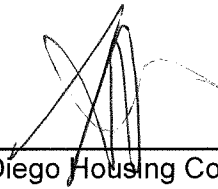
Employer Identification Number: 95-3390896

**Adaptable Housing Development
Project No. 12-HLCP-0004
A Project of San Diego Housing Commission**

June 30, 2018

Managing Agent's Certification

I hereby certify that I have examined the accompanying financial statements and supplementary information of Adaptable Housing Development as of and for the year ended June 30, 2018, to the best of my knowledge and belief, the same is complete and accurate.



San Diego Housing Commission
Tracey McDermott, Sr. Vice President and
Chief Financial Officer

9/26/2018

Date

Independent Auditor's Report

To the Board of Commissioners
San Diego Housing Commission

Report on the Financial Statements

We have audited the accompanying financial statements of Adaptable Housing Development Project No. 12-HLCP-0004 (the "Project") owned by San Diego Housing Commission ("SDHC"), which comprise the statements of net position as of June 30, 2018 and 2017, and the related statements of revenue, expenses and changes in net position and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Diego Housing Commission's Adaptable Housing Development Project No. 12-HLCP-0004 as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2, the financial statements referred to above present only the financial position and changes in financial position of the Project and do not purport to, and do not, present fairly, the financial position of SDHC as of June 30, 2018 and 2017 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 17 to 24 as required by the California Department of Housing and Community Development is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2018, on our consideration of SDHC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 SDHC'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 SDHC's internal control over financial reporting and compliance.



Sacramento, California
September 26, 2018

**Adaptable Housing Development
Project No. 12-HLCP-0004
A Project of San Diego Housing Commission**

**Statements of Net Position
June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Current assets		
Cash and cash equivalents	\$ 65,525	\$ 50,393
Tenants' accounts receivable, net	3,725	2,547
Accounts receivable - grants	73,433	14,146
Accounts receivable - other	468	530
	<u>143,151</u>	<u>67,616</u>
Total current assets		
Other assets		
Restricted deposits and funded reserves	<u>266,827</u>	<u>339,526</u>
	<u>266,827</u>	<u>339,526</u>
Total restricted deposits and funded reserves		
Capital assets		
Buildings and improvements	6,739,312	6,295,641
Less accumulated depreciation	<u>(1,222,534)</u>	<u>(825,328)</u>
	5,516,778	5,470,313
Land	<u>484,372</u>	<u>484,372</u>
	<u>6,001,150</u>	<u>5,954,685</u>
Total capital assets		
Total assets	<u><u>\$ 6,411,128</u></u>	<u><u>\$ 6,361,827</u></u>

**Adaptable Housing Development
Project No. 12-HLCP-0004
A Project of San Diego Housing Commission**

**Statements of Net Position
June 30, 2018 and 2017**

Liabilities

	2018	2017
Current liabilities		
Accounts payable - operations	\$ 21,191	\$ 10,028
Accrued expenses	1,881	2,659
Accrued interest payable - first mortgage, current	5,900	5,900
Prepaid rent	1,720	7,553
	<u>30,692</u>	<u>26,140</u>
Total current liabilities		
Deposits and prepaid liability		
Tenants' security deposits liability	15,149	14,399
	<u>15,149</u>	<u>14,399</u>
Total deposits and prepaid liability		
Long-term liabilities		
Mortgage payable - first mortgage	1,404,849	1,404,849
Accrued interest payable - first mortgage, net of current portion	180,193	143,958
	<u>1,585,042</u>	<u>1,548,807</u>
Total long-term liabilities		
Total liabilities	<u>1,630,883</u>	<u>1,589,346</u>

Net Position

Net investment in capital assets	4,596,301	4,549,836
Restricted for operating and replacement reserve	213,149	162,458
Unrestricted	<u>(29,205)</u>	<u>60,187</u>
Total net position	<u>4,780,245</u>	<u>4,772,481</u>
Total liabilities and net position	<u>\$ 6,411,128</u>	<u>\$ 6,361,827</u>

**Adaptable Housing Development
Project No. 12-HLCP-0004
A Project of San Diego Housing Commission**

**Statements of Revenue, Expenses and Changes in Net Position
June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Operating revenue		
Rental income	\$ 186,758	\$ 131,190
Other operating income	<u>79,262</u>	<u>15,518</u>
Total operating revenue	<u>266,020</u>	<u>146,708</u>
Operating expenses		
Administrative	85,723	73,378
Utilities	40,304	23,157
Operating and maintenance	68,280	46,556
Depreciation	397,206	82,634
Taxes and insurance	<u>14,363</u>	<u>12,373</u>
Total operating expenses	<u>605,876</u>	<u>238,098</u>
Net operating loss	<u>(339,856)</u>	<u>(91,390)</u>
Nonoperating revenue (expense)		
Financial revenue - investments	4,287	1,831
Interest expense - first mortgage	<u>(42,135)</u>	<u>(42,135)</u>
Total nonoperating revenue (expense)	<u>(37,848)</u>	<u>(40,304)</u>
Change in net position before capital transactions	(377,704)	(131,694)
Contributions	<u>385,468</u>	<u>4,939,576</u>
Change in net position	7,764	4,807,882
Net position		
Beginning of year	<u>4,772,481</u>	<u>(35,401)</u>
End of year	<u><u>\$ 4,780,245</u></u>	<u><u>\$ 4,772,481</u></u>

See Notes to Financial Statements.

**Adaptable Housing Development
Project No. 12-HLCP-0004
A Project of San Diego Housing Commission**

**Statements of Cash Flows
Years Ended June 30, 2018 and 2017**

	2018	2017
Cash flows from operating activities		
Cash received from tenants and operations	\$ 183,322	\$ 129,117
Less cash payments for operations and administration		
Administrative expenses paid	(23,955)	(18,080)
Management fee and sponsor overhead paid	(31,584)	(30,080)
Utilities paid	(38,167)	(22,923)
Salaries and wages paid	(27,595)	(18,497)
Operating and maintenance paid	(46,221)	(43,141)
Real estate taxes paid	(34)	(34)
Property insurance paid	(5,087)	(3,597)
Net tenant security deposits received (paid)	750	4,750
Other operating expenses paid	(9,242)	(8,742)
	<u>(181,135)</u>	<u>(140,344)</u>
Net cash provided by (used in) operating activities	<u>2,187</u>	<u>(11,227)</u>
Cash flows from capital and related financing activities		
Contributions from owner	385,468	4,939,576
Acquisition and construction of capital assets	(443,671)	(4,957,384)
Interest paid	(5,900)	(5,900)
	<u>(64,103)</u>	<u>(23,708)</u>
Net cash used in capital and related financing activities		
Cash flows from investing activities		
Net deposits to replacement reserve	(50,378)	(21,338)
Net deposits to operating reserve	(311)	(310)
Interest on investments	4,349	1,890
Net sales of investments	123,388	65,986
	<u>77,048</u>	<u>46,228</u>
Net cash provided by investing activities		
Net increase in cash and cash equivalents	15,132	11,293
Cash and cash equivalents, beginning	<u>50,393</u>	<u>39,100</u>
Cash and cash equivalents, end	<u><u>\$ 65,525</u></u>	<u><u>\$ 50,393</u></u>

**Adaptable Housing Development
Project No. 12-HLCP-0004
A Project of San Diego Housing Commission**

**Statements of Cash Flows
Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Reconciliation of net operating loss to net cash provided by (used in) operating activities		
Net operating loss	\$ (339,856)	\$ (91,390)
Adjustments to reconcile net operating loss to net provided by cash (used in) operating activities		
Depreciation	397,206	82,634
Bad debt	16,400	3,499
Changes in:		
Tenants' accounts receivable	(17,578)	(1,842)
Accounts receivable - grants	(59,287)	(14,146)
Prepaid revenue	(5,833)	6,849
Accounts payable - operations	11,163	4,212
Accrued expenses	(778)	(5,793)
Tenants' security deposits liability	750	4,750
	<u>2,187</u>	<u>(11,227)</u>
Net cash provided by (used in) operating activities	<u>\$ 2,187</u>	<u>\$ (11,227)</u>

See Notes to Financial Statements.

**Adaptable Housing Development
Project No. 12-HLCP-0004
A Project of San Diego Housing Commission**

**Notes to Financial Statements
June 30, 2018 and 2017**

Note 1 - The financial reporting entity

The San Diego Housing Commission ("SDHC")'s Adaptable Housing Development Project consists of a 35-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 revenue and operating expenses for the Project. In May 2013, SDHC and RHCP amended the original agreements and entered into a new regulatory and loan agreement under which the previous loan was refinanced and the new permanent loan was extended for a period of 55 years.

Note 2 - Significant accounting policies

Basic financial statements

The basic financial statements (i.e. the statements of net position, the statements of revenue, expenses and changes in net position and the statements of cash flows) report information on all of the activities of the Project. These basic financial statements are presented in accordance with the Governmental Accounting Standards Board standards. The accompanying financial statements are not intended to present fairly the financial position or changes in financial position and cash flows of SDHC in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Measurement focus, basis of accounting and financial statement presentation

The basic financial statements of the Project are prepared using the economic resource measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources and liabilities and deferred inflows of resources are included on the statements of net position. The statements of revenue, expenses and changes in net position present increases (revenue) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenue are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

The Project distinguishes operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services in connection with the Project's ongoing operations. The principal operating revenue of the Project is rental income from the tenants of its housing units. Operating expenses for the Project include the cost of services and general and administrative expenses. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses. When both restricted and unrestricted resources are available for use, it is the Project's policy to use restricted resources first, then unrestricted resources as needed.

Cash and cash equivalents

The Project cash and cash equivalents are maintained within the general operating bank account of SDHC. The ending balance of the operating account is allocated between several projects of SDHC based upon each project's relative cash activities. As of June 30, 2018 and 2017, the reconciled balance of SDHC general cash account is \$27,882,935 and \$16,987,264, respectively, of which \$65,525 and \$50,393 belong to the Project as of June 30, 2018 and 2017, respectively.

**Adaptable Housing Development
Project No. 12-HLCP-0004
A Project of San Diego Housing Commission**

**Notes to Financial Statements
June 30, 2018 and 2017**

Restricted deposits and reserves

The Project restricted deposits and reserves represent deposits to lender required reserves for replacements, operating reserve and tenant security deposits. The Project's restricted deposits and reserves are invested along with other SDHC funds to maximize income consistent with safe and prudent investment practices within the guidelines of SDHC's investment policy.

In accordance with California state statute and the U.S. Department of Housing and Urban Development ("HUD") regulations, SDHC has authorized the Chief Financial Officer or designee to invest in obligations of the U.S. Treasury, U.S. Government agencies or other investments as outlined in SDHC's Investment Policy. An Investment Committee, consisting of two Commission Board members, monitors the management of funds and compliance with SDHC's Investment Policy. SDHC utilizes the services of an experienced financial advisor to aid in making investment decisions. Working with the Investment Committee and staff, the advisor provides guidance on creating a diversified portfolio and a secure investment mix. The advisor's ongoing role is to provide staff with sound investment opportunities that will maximize liquidity and yield without sacrificing principal value and safety of the investment securities.

All investments are stated at fair value, except for money market investments with remaining maturities less than one year when purchased, which are stated at amortized cost. Money market investments are short-term, highly-liquid debt securities, such as bankers' acceptances, commercial paper, repurchase agreements, negotiable certificates of deposit and U.S. Treasury obligations. Fair value is the value at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Detailed disclosures, including investment policies and associated risk policies, regarding the Project's cash and cash equivalents, restricted deposits and reserves, and investments are included in the notes to SDHC's basic financial statements.

Fair value

Authoritative guidance establishes hierarchy for ranking the quality and reliability of the information used to determine fair values, requiring that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted market prices for identical assets or liabilities in active markets.

Level 2: Unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3: Significant unobservable inputs for the asset or liability.

Resident accounts receivable

Resident accounts receivable are due from tenants and reported net of an allowance for doubtful accounts. Management's estimate of the allowance is based on historical collection experience and a review of the current status of the receivables. It is reasonably possible that management's estimate of the allowance will change. The allowance for doubtful accounts was \$709 and \$485 as of June 30, 2018 and 2017, respectively.

**Adaptable Housing Development
Project No. 12-HLCP-0004
A Project of San Diego Housing Commission**

**Notes to Financial Statements
June 30, 2018 and 2017**

Capital assets

Capital assets are stated at cost. The capitalization threshold for all capital assets is \$5,000. Expenditures for repairs and maintenance are charged to operations as incurred while major renewals and betterments are capitalized. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Building and improvements	40 years
Furnishings and improvements	5 years

Impairment of capital assets

SDHC reviews the capital assets of the Project for impairment whenever events or changes in circumstances indicate that there has been a decline in service utility that is large in magnitude and outside of the normal life cycle of the capital asset being evaluated. There has been no impairment of the capital assets during the year ended June 30, 2018 and 2017, respectively.

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

The Project converted to Public Housing and began receiving an operating subsidy from HUD. The Project recognized \$73,433 and \$0 of operating subsidy income during the years ended June 30, 2018 and 2017, respectively, of which \$73,433 and \$0 is receivable as of June 30, 2018 and 2017, respectively.

Net position

In the statements of net position, net assets are classified in the following categories:

Net Investment in Capital Assets - This amount consists of capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted - This amount is all net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

Use of estimates

The preparation of financial statements in accordance with 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 year. Actual results could differ from those estimates.

**Adaptable Housing Development
Project No. 12-HLCP-0004
A Project of San Diego Housing Commission**

**Notes to Financial Statements
June 30, 2018 and 2017**

Note 3 - Restricted deposits and funded reserves

As of June 30, 2018 and 2017, the restricted deposits and reserves consist of the following:

Tenant security deposits

The Project collects security deposits from tenants at the inception of the tenant lease. These deposits, which are reported in the basic financial statements as restricted cash, are refundable to the tenants to the extent there are no unpaid rents or damages to the housing unit. Tenant security deposits held amounted to \$15,149 and \$13,200 as of June 30, 2018 and 2017, respectively.

Replacement reserve

The Project shall establish and fund a replacement reserve account for the term of the regulatory agreement. The replacement reserve shall be funded in the initial amount of \$35,000 to provide for future major additions, repairs or replacements. The Project shall make annual deposits of \$21,000 per year. The replacement reserve balance is \$135,023 and \$84,645 as of June 30, 2018 and 2017, respectively. During the years ended June 30, 2018 and 2017, the replacement reserve activity was as follows:

	2018	2017
Beginning balance	\$ 84,645	\$ 63,307
Deposits (\$600 x 35 units)	21,000	21,000
Project cash flow	28,955	-
Interest earned	423	338
Ending balance	<u>\$ 135,023</u>	<u>\$ 84,645</u>

Operating reserve

The Project shall establish and fund an operating reserve account pursuant the regulatory agreement. The operating reserve shall be funded by previous project cash flow and RHCP annuity payments. The operating reserve balance is \$78,126 and \$77,815 as of June 30, 2018 and 2017, respectively.

Other investments

The Project has other investments with a balance of \$38,529 and \$163,867 as of June 30, 2018 and 2017, respectively.

In accordance with SDHC's investment policy, the restricted deposits and reserves above are invested in the State's Local Agency Investment Fund, the San Diego County Investment Pool and other investments such as bonds, government agency securities and demand deposit accounts safe kept with commercial banking institutions. The detailed disclosures including investment policies and associated risk for each of these investments are included in the notes to SDHC's basic financial statements.

**Adaptable Housing Development
Project No. 12-HLCP-0004
A Project of San Diego Housing Commission**

**Notes to Financial Statements
June 30, 2018 and 2017**

Note 4 - Mortgage payable

The mortgage payable to RHCP associated with the acquisition of the Project is in the amount of \$1,404,849. Repayment of the interest and any outstanding principal balance is due in its entirety on the maturity date of May 10, 2068. The note bears interest of 3.00% and is payable in the annual amount of 0.42% of the outstanding principal balance. Interest expense was \$42,135 for each of the years ended June 30, 2018 and 2017. Outstanding principal and accrued interest is \$1,404,849 and \$186,093, respectively, as of June 30, 2018 and \$1,404,849 and \$149,858, respectively, as of June 30, 2017.

Note 5 - Management fee and sponsor overhead

The Project incurs a management fee and overhead costs from SDHC for central office services which includes but is not limited to clerical and management overhead expenses, such as salaries and benefits, office supplies and equipment, data processing or computer services, postage, training and telephone services. This does not include the salary of the project manager whether onsite or offsite. SDHC allocated to the Project management fees and overhead expenses in the amount of \$31,584 and \$30,080 for the years ended of June 30, 2018 and 2017, respectively.

Note 6 - Concentration of credit risk

The Project maintains its cash and cash equivalents with various financial institutions. At times, these balances may exceed the federal insurance limits; however, the Project has not experienced any losses with respect to its bank balances in excess of government provided insurance. The Project Owner believes that no significant concentration of credit risks exists with respect to these cash balances at June 30, 2018.

Note 7 - Current vulnerability due to certain concentrations

The Project's principal assets consist of 35 units within various apartment projects. The Project's operations are concentrated in the multifamily real estate market. In addition, the Project operates in a heavily regulated environment. The operations of the Project are subject to the administrative directives, rules and regulations of governmental agencies, including, but not limited to HUD or RHCP. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD or RHCP. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

Note 8 - Subsequent events

Events that occur after the date of the statement of net position but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the date of the statement of net position are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the date of the statement of net position require disclosure in the accompanying notes. Management evaluated the activity of the Project through September 26, 2018, the date the financial statements were available to be issued and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to financial statements.

Supplementary Information
Supporting Data Required by HCD

**Adaptable Housing Development
Project No. 12-HLCP-0004
A Project of San Diego Housing Commission**

**Supplementary Information
Years Ended June 30, 2018 and 2017**

Schedules of Operating Revenue

<u>Account No.</u>	<u>2018</u>	<u>2017</u>
Rental revenue		
5120 Rent revenue - gross potential	\$ 186,758	\$ 131,190
5100T Total rental revenue	186,758	131,190
5152N Net rental revenue	186,758	131,190
Financial revenue		
5410 Financial revenue - project operations	3,553	1,183
5440 Revenue from investments - replacement reserve	423	338
5490 Revenue from investments - miscellaneous	311	310
5400T Total financial revenue	4,287	1,831
Other revenue		
5910 Laundry and vending	5,829	4,695
5920 Tenant charges	-	1,250
5990 Miscellaneous revenue (if over \$2,500, detail is required)	73,433	9,573
5900T Total other revenue	79,262	15,518
5000T Total revenue	270,307	148,539

**Adaptable Housing Development
Project No. 12-HLCP-0004
A Project of San Diego Housing Commission**

**Supplementary Information
Years Ended June 30, 2018 and 2017**

Schedules of Operating Expenses

<u>Account No.</u>	<u>2018</u>	<u>2017</u>
Administrative expenses		
6210 Advertising and marketing	-	293
6250 Other renting expenses	189	677
6310 Office salaries	18,296	19,633
6311 Office expenses	1,962	1,305
6320 Management fee	31,584	30,080
6340 Legal expense - project	121	440
6350 Auditing expense	7,000	7,000
6351 Bookkeeping fees/accounting services	9,809	9,037
6370 Bad debts	16,400	3,499
6390 Miscellaneous administrative expenses	362	1,414
	<hr/>	<hr/>
6263T Total administrative expenses	85,723	73,378
	<hr/>	<hr/>
Utilities expense		
6450 Electricity	3,378	3,615
6451 Water	13,369	6,665
6452 Gas	12,847	7,198
6453 Sewer	10,710	5,679
	<hr/>	<hr/>
6400T Total utilities expense	40,304	23,157
	<hr/>	<hr/>
Operating and maintenance expenses		
6510 Payroll	8,521	1,523
6515 Supplies	3,213	347
6520 Contracts	56,464	44,686
6570 Vehicle and maintenance equipment operation and repairs	44	-
6590 Miscellaneous operating and maintenance expenses	38	-
	<hr/>	<hr/>
6500T Total operating and maintenance expenses	68,280	46,556
	<hr/>	<hr/>

**Adaptable Housing Development
Project No. 12-HLCP-0004
A Project of San Diego Housing Commission**

**Supplementary Information
Years Ended June 30, 2018 and 2017**

Account No.	2018	2017
Taxes and insurance		
6710 Real estate taxes	34	34
6720 Property and liability insurance	5,087	3,597
6722 Workmen's compensation	636	227
6723 Health insurance and other employee benefits	8,606	8,515
6700T Total taxes and insurance	14,363	12,373
Financial expenses		
6820 Interest on first mortgage payable	42,135	42,135
6800T Total financial expenses	42,135	42,135
6000T Total cost of operations before depreciation	250,805	197,599
5060T Income (loss) before depreciation	19,502	(49,060)
Depreciation		
6600 Depreciation expense	397,206	82,634
Total depreciation	397,206	82,634
5060N Operating income (loss)	(377,704)	(131,694)
Total expenses	648,011	280,233
3250 Change in net assets	\$ (377,704)	\$ (131,694)

Detail of Accounts - Schedules of Activities

	2018	2017
Miscellaneous Other Revenue (Account No. 5990)		
Grant income	\$ 73,433	\$ 9,573
	\$ 73,433	\$ 9,573

**Adaptable Housing Development
Project No. 12-HLCP-0004
A Project of San Diego Housing Commission**

**Supplementary Information
Year Ended June 30, 2018**

Cash on Hand and in Banks

Unrestricted cash operating accounts	
Operating account	\$ 65,525
	<u>\$ 65,525</u>
Restricted cash accounts	
Tenant security deposits - checking	\$ 15,149
Replacement reserve	135,023
Operating reserve	78,126
Investments	38,529
	<u>\$ 266,827</u>

Mortgage Impound Accounts

None.

Reserve for Replacement and Operating Expenses

	Replacement reserve	Operating reserve
Beginning balance	\$ 84,645	\$ 77,815
Deposits (\$600 x 35 units)	21,000	-
Project cash flow	28,955	-
Interest earned	423	311
	<u>\$ 135,023</u>	<u>\$ 78,126</u>
Ending balance	<u>\$ 135,023</u>	<u>\$ 78,126</u>

Property, Equipment and Improvements

Following are the details of property, equipment and improvements:

	Balance 6/30/17	Additions	Deletions	Balance 6/30/18
Land	\$ 484,372	\$ -	\$ -	\$ 484,372
Buildings	6,295,641	443,671	-	6,739,312
	<u>\$ 6,780,013</u>	<u>\$ 443,671</u>	<u>\$ -</u>	<u>\$ 7,223,684</u>

**Adaptable Housing Development
Project No. 12-HLCP-0004
A Project of San Diego Housing Commission**

**Supplementary Information
Year Ended June 30, 2018**

Accounts Payable and Accrued Expenses

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

Current	\$ 14,789
31 to 60 days	3,336
61 to 90 days	2,439
Over 90 days	<u>627</u>
Total	<u><u>\$ 21,191</u></u>

Gross Potential Rents

Gross potential rents includes the following:

Tenant rental payments	\$ 170,358
Bad debt	<u>16,400</u>
Total gross potential rents	<u><u>\$ 186,758</u></u>

Management Fee

The management fee and sponsor overhead authorized by RHCP totals \$31,584 and \$30,080 for the years ended June 30, 2018 and 2017, respectively.

Operating Cash Flow/Surplus Cash Computation

Operating income	
Total income	\$ 270,307
Interest earned on restricted reserve accounts	<u>(734)</u>
Adjusted operating income	269,573
Operating expenses	<u>(208,670)</u>
Adjusted net income	60,903
Other activity	
Deposits into replacement reserve account	<u>(21,000)</u>
Total other activity	<u>(21,000)</u>
Operating cash flow/surplus cash	<u><u>\$ 39,903</u></u>

**Adaptable Housing Development
Project No. 12-HLCP-0004
A Project of San Diego Housing Commission**

**Supplementary Information
Year Ended June 30, 2018**

Reconciliation to RHCP Form 181

Total operating revenue	\$ 266,020
Interest income	4,287
Less interest on reserves	<u>(734)</u>
Effective gross rent per RHCP Form 181	<u><u>\$ 269,573</u></u>

Reconciliation to RHCP Form 180

Total operating expenses	\$ 605,876
Less bad debt	(16,400)
Less depreciation	<u>(397,206)</u>
Total operating costs per RHCP Form 180	<u><u>\$ 192,270</u></u>

Rental Housing Construction Program -- Original
6. AMC 180a - ACTUAL COST OF OPERATIONS - Operating Budget/Annual Report

Contract No: 80-RHC-002 Reporting Period: 7/1/17 to 6/30/18
Project Name: Adaptable Housing
Prepared by: Maria Gimutao
Date Prepared: 8/10/18

Rev 9/28/16

ACCOUNT NAME		UNIT EXPENSES					
	ACCOUNT CODES	Approved Assisted (A)	Actual Assisted	Approved Non-Assisted	Actual Non-Assisted	Proposed Commercial	Actual Commercial
MANAGEMENT FEE: 6200/6300							
1 Management Fee or Sponsor Overhead	6320	16,243	16,243	15,341	15,341	0	0
ADMINISTRATIVE EXPENSES: 6200/6300							
2 Advertising	6210	145	0	137	0	0	0
3 Apartment Resale Expense (Cooperatives)	6235	0	0	0	0	0	0
4 Other Renting Expenses	6250	58	232	54	219	0	0
5 Office Salaries	6310	11,938	1,828	11,274	1,727	0	0
6 Office Supplies	6311	1,244	348	1,175	329	0	0
7 Office or Model Apartment Rent	6312	0	0	0	0	0	0
8 Manager and Superintendent Salaries	6330	6,610	8,093	6,243	7,643	0	0
9 Manager's or Superintendent's Rent Free Unit	6331	0	0	0	0	0	0
10 Legal Expense - Project	6340	203	0	191	0	0	0
11 Audit Expense - Project	6350	344	3,600	324	3,400	0	0
12 Bookkeeping Fees/Accounting Services	6351	4,793	5,045	4,526	4,764	0	0
13 Telephone and Answering Service Expenses	6360	58	639	54	604	0	0
14 Bad Debt Expense	6370	0	0	0	0	0	0
15 Miscellaneous Administrative Expenses (specify)	6390	1,945	404	1,837	382	0	0
16 TOTAL ADMINISTRATIVE EXPENSES	6200/6300T	27,336	20,189	25,817	19,068	0	0
UTILITIES EXPENSES: 6400							
17 Fuel Oil/Coal	6420	0	0	0	0	0	0
18 Electricity	6450	2,140	1,737	2,022	1,641	0	0
19 Water	6451	2,161	6,875	2,040	6,494	0	0
20 Gas	6452	1,901	6,607	1,796	6,240	0	0
21 Sewer	6453	1,539	5,508	1,453	5,202	0	0
22 TOTAL UTILITIES EXPENSES	6400T	7,741	20,728	7,311	19,576	0	0
OPERATING AND MAINTENANCE EXPENSES: 6500							
23 Janitor and Cleaning Payroll	6510	0	0	0	0	0	0
24 Janitor and Cleaning Supplies	6515	0	105	0	99	0	0
25 Janitor and Cleaning Contracts	6517	0	3,250	0	3,070	0	0
26 Exterminating Payroll/Contract	6519	395	854	373	807	0	0
27 Exterminating Supplies	6520	0	0	0	0	0	0
28 Garbage and Trash Removal	6525	1,766	4,755	1,668	4,491	0	0
29 Security Payroll/Contract	6530	0	0	0	0	0	0
30 Grounds Payroll	6535	0	0	0	0	0	0
31 Grounds Supplies	6536	0	0	0	0	0	0
32 Grounds Contract	6537	6,566	6,226	6,202	5,880	0	0
33 Repairs Payroll	6540	639	5,309	603	5,014	0	0
34 Repairs Material	6541	88	1,397	84	1,320	0	0
35 Repairs Contract	6542	4,885	10,974	4,613	10,364	0	0
36 Elevator Maintenance/Contract	6545	0	0	0	0	0	0
37 Heating/Cooling Repairs and Maintenance	6546	0	2,702	0	2,552	0	0
38 Swimming Pool Maintenance/Contract	6547	0	0	0	0	0	0
39 Snow Removal	6548	0	0	0	0	0	0
40 Decorating/Payroll Contract	6560	0	0	0	0	0	0
41 Decorating Supplies	6561	0	0	0	0	0	0
42 Vehicle and Maint. Equipment Operation/Repairs	6570	192	201	182	190	0	0
43 Misc. Operating and Maintenance Expenses (specify)	6590	0	0	0	0	0	0
44 TOTAL OPERATING & MAINTENANCE EXPENSES	6500T	14,532	35,774	13,724	33,786	0	0
TAXES AND INSURANCE: 6700							
45 Real Estate Taxes	6710	0	0	0	0	0	0
46 Payroll Taxes (Project's Share)	6711	0	0	0	0	0	0
47 Misc. Taxes, Licenses and Permits	6719	0	0	0	0	0	0
48 Property and Liability Insurance (Hazard)	6720	1,732	2,634	1,636	2,488	0	0
49 Fidelity Bond Insurance	6721	0	0	0	0	0	0
50 Worker's Compensation	6722	0	327	0	309	0	0
51 Health Insurance and Other Employee Benefits	6723	2,070	2,987	1,955	2,821	0	0
52 Other Insurance	6729	0	0	0	0	0	0
53 TOTAL TAXES AND INSURANCE	6700T	3,802	5,948	3,591	5,617	0	0
ASSISTED LIVING/BOARD & CARE EXPENSES: 6900							
54 Food	6932	0	0	0	0	0	0
55 Recreation and Rehabilitation	6980	0	0	0	0	0	0
56 Rehabilitation Salaries	6983	0	0	0	0	0	0
57 Other Service Expenses	6990	0	0	0	0	0	0
58 TOTAL ASSISTED LIVING EXPENSES	6900T	0	0	0	0	0	0
61 TOTAL OPERATING COSTS		69,654	98,882	65,784	93,388	0	0
Line #	For each account below, itemize the expenses (total will flow to account above)						Amount
	Account 6390 Miscellaneous Administrative Expenses						
62							
63							
64							
65							
66	Total Account 6390 Miscellaneous Administrative Expenses						\$0
	Account 6590 Miscellaneous Operations & Maintenance Expenses						
67							
68							
69							
70							
71	Total Account 6590 Miscellaneous Operations & Maintenance Expenses						\$0
	Account 6729 Other Insurance						
72							
73	Total Account 6729 Other Insurance						\$0

Rental Housing Construction Program -- Original
7. AMC 181a - ACTUAL CASH FLOW ANALYSIS - Operating Budget/Annual Report

Contract No: 80-RHC-002
Project Name: Adaptable Housing
Prepared by: Maria Gimutao
Date Prepared: 8/10/18

Reporting Period: 7/1/17 to 6/30/18

Units/Sq. Ft. - Assisted: 35
Units/Sq. Ft. - Total: 35

Rev 9/28/16

Unit Months: 420

ACCOUNT NAME		ASSISTED UNITS		NON-ASSISTED UNITS		COMMERCIAL		TOTAL PROJECT		PROJECT VARIANCE
	Account Codes	Approved Cashflow (A)	Actual Cashflow (B)	Approved Cashflow (C)	Actual Cashflow (D)	Proposed Cashflow (E)	Actual Cashflow (F)	Approved Cashflow (G)	Actual Cashflow (H)	Cashflow Variance (I)
REVENUE ACCOUNTS/RENT REVENUE: 5100										
1 Rent Revenue	5120	91,524	96,047	72,924	90,711	0	0	164,448	186,758	22,310
2 Tenant Assistance Payments	5121	0	37,766	0	35,667	0	0	0	73,433	73,433
3 Rent revenue - Stores and Commercial	5140	0	0	0	0	0	0	0	0	0
4 Garage and Parking Spaces	5170	0	0	0	0	0	0	0	0	0
5 Flexible Subsidy Revenue	5185	0	0	0	0	0	0	0	0	0
6 Miscellaneous Rent Revenue	5190	0	0	0	0	0	0	0	0	0
7 Excess Rent	5191	0	0	0	0	0	0	0	0	0
8 Rent Revenue/Insurance	5192	0	0	0	0	0	0	0	0	0
9 Special Claims Revenue	5193	0	0	0	0	0	0	0	0	0
10 Retained Excess Income	5194	0	0	0	0	0	0	0	0	0
11 GROSS RENT REVENUE	5100T	91,524	133,813	72,924	126,378	0	0	164,448	260,191	95,743
VACANCIES: 5200										
Vacancy Percentage:		0	0	0	0	0	0			
11 Apartments -	5220					0	0			
12 Stores and Commercial	5240					0	0			
13 Rental Concessions	5250					0	0			
14 Garage and Parking Spaces	5270					0	0			
15 Miscellaneous	5290					0	0			
Total Vacancies (HCD Use Only)	5200T	2,746	0	2,188	0	0	0	4,933	0	0
ASSISTED LIVING/BOARD & CARE REVENUES: 5300										
17 Food	5332	0	0	0	0	0	0	0	0	0
18 Recreation (Activities) and Rehabilitation	5380	0	0	0	0	0	0	0	0	0
19 Rehabilitation	5385	0	0	0	0	0	0	0	0	0
20 Other Service Revenue	5390	0	0	0	0	0	0	0	0	0
Total Living Revenue	6300T	0	0	0	0	0	0	0	0	0
FINANCIAL REVENUE: 5400										
21 Financial Revenue - Project Operations	5410	1,214	1,827	1,146	1,726	0	0	2,360	3,553	1,193
Total Financial Revenue	5400T	1,214	1,827	1,146	1,726	0	0	2,360	3,553	1,193
OTHER REVENUE: 5900										
22 Laundry and Vending Revenue	5910	404	2,998	382	2,831	0	0	786	5,829	5,043
23 NSF and Late Charges	5920	491	0	464	0	0	0	955	0	(955)
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
Total Other Revenue	5900T	895	2,998	846	2,831	0	0	1,741	5,829	4,088
27 EFFECTIVE GROSS RENT (EGR)	5152T	90,887	138,638	72,728	130,935	0	0	163,616	269,573	105,957
28 TOTAL OPERATING EXPENSES	6000T	71,743	98,882	67,758	93,388	0	0	139,501	192,270	(52,769)
29 NET OPERATING INCOME (NOI)	5000T	19,144	39,756	4,971	37,547	0	0	24,114	77,303	53,189
FINANCIAL EXPENSES: 6800										
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	5,900	5,900	0	0	5,900	5,900	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
Total Financial Expenses	6800T	0	0	5,900	5,900	0	0	5,900	5,900	0
FUNDED RESERVES:										
34 Escrow Deposits	1300	0	0	0	0	0	0	0	0	0
35 Replacement Reserve-Deposit	1320	10,800	10,800	10,200	10,200	0	0	21,000	21,000	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
Total Reserve Deposits		10,800	10,800	10,200	10,200	0	0	21,000	21,000	0
38 PROJECT CASH FLOW (CF)		8,344	28,956	(11,129)	21,447	0	0	(2,786)	50,403	53,189
ADDITIONAL REVENUE:										
39 RHCP-O Annuity Fund Request (For Assisted Units Only)		0	0					0	0	0
40 Withdrawal from Operating Reserves		0	0	0	0	0	0	0	0	0
41 Borrower Contribution		0	0	0	0	0	0	0	0	0
42 Other (specify)		0	0	0	0	0	0	0	0	0
Total Additional Revenue		0	0	0	0	0	0	0	0	0
USE OF CASH FLOW:										
43 HCD Interest Payments		0	0	0	0	0	0	0	0	0
44 Asset Mgmt Fee (CHRP-R/SUHRP & HOME-pre-UMR Only)		0	0	0	0	0	0	0	0	0
45 Asset Mgmt Fee/Prtshp Costs (MHP/HOME under UMR)		0	0	0	0	0	0	0	0	0
46 Borrower Distributions		0	0	0	0	0	0	0	0	0
47 Residual Receipt Loan Payments		0	0	0	0	0	0	0	0	0
48 Other (specify)		0	0	0	0	0	0	0	0	0
Total Use of Cash Flow		0	0	0	0	0	0	0	0	0

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

To the Board of Commissioners
San Diego Housing Commission

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of San Diego Housing Commission's ("SDHC's") Adaptable Housing Development Project No. 12-HLCP-0004 (the "Project"), which comprise the statement of net position as of June 30, 2018, and the related statements of revenue, 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 September 26, 2018, which included an emphasis of matter paragraph as indicated on page 5.

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 Project's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Project's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SDHC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CohnReznick LLP

Sacramento, California
September 26, 2018



Independent Member of Nexia International

cohnreznick.com

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

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

June 30, 2018

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

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

June 30, 2018

Mortgagor's Certification

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

Sole Member

San Diego Housing Commission

Tracey McDermott Date
Sr. 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, 2018

Managing Agent's Certification

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

Managing Agent

San Diego Housing Commission

Richard Gentry
Chief Executive Officer

Date

Tracey McDermott
Sr. Vice President &
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 Financial Statements

We have audited the accompanying financial statements of Northern SDHC FHA LLC, which comprise the balance sheet as of June 30, 2018, 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, 2018, 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 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 19 to 32 is presented for purposes of additional analysis and is not a required part of the financial statements.

The accompanying supplementary information on pages 19 to 32 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information on pages 19 to 32 is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2018 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 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 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 26, 2018

Taxpayer Identification Number:
22-1478099

Lead Auditor: Ahamadou Alainchar Bocar, CPA

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

Balance Sheet
June 30, 2018

Assets

Current assets	
Cash - operations	\$ 787,789
Tenant accounts receivable	18,034
Allowance for doubtful accounts	(187)
Prepaid expenses	<u>25,028</u>
Total current assets	<u>830,664</u>
Deposits held in trust - funded	
Tenant deposits	<u>97,585</u>
Restricted deposits and funded reserves	
Escrow deposits	60,543
Reserve for replacements	<u>301,650</u>
Total restricted deposits and funded reserves	<u>362,193</u>
Rental property	
Land	3,690,974
Buildings and improvements	<u>11,060,209</u>
	14,751,183
Less accumulated depreciation	<u>(2,870,110)</u>
Total rental property	<u>11,881,073</u>
Total assets	<u><u>\$ 13,171,515</u></u>

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

Balance Sheet
June 30, 2018

Liabilities and Member's Equity (Deficit)

Current liabilities	
Accounts payable - operations	\$ 686,122
Accounts payable - project improvement items	210
Accounts payable - entity	77,461
Accrued wages payable	5,394
Accrued management fee payable	12,671
Accrued interest payable - first mortgage	48,028
Mortgage payable - first mortgage (short-term)	329,144
Prepaid revenue	<u>22,240</u>
Total current liabilities	1,181,270
Deposits liability	
Tenant deposits held in trust (contra)	<u>97,583</u>
Long-term liabilities	
Mortgage payable - first mortgage, net	<u>14,642,088</u>
Total long-term liabilities	<u>14,642,088</u>
Total liabilities	<u>15,920,941</u>
Member's equity (deficit)	<u>(2,749,426)</u>
Total liabilities and member's equity (deficit)	<u><u>\$ 13,171,515</u></u>

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

**Statement of Operations
Year Ended June 30, 2018**

Rental revenue	
Rent revenue - gross potential	\$ 2,102,140
Tenant assistance payments	<u>844,255</u>
Total rental revenue	<u>2,946,395</u>
Vacancies	
Apartments	(10,765)
Rental concessions	<u>(9,392)</u>
Total vacancies	<u>(20,157)</u>
Net rental revenue	<u>2,926,238</u>
Financial revenue	
Financial revenue - project operations	1,101
Revenue from investments - replacement reserve	<u>128</u>
Total financial revenue	<u>1,229</u>
Other revenue	
Laundry and vending	40,373
Tenant charges	8,817
Miscellaneous revenue	<u>190,027</u>
Total other revenue	<u>239,217</u>
Total revenue	<u>3,166,684</u>

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

**Statement of Operations
Year Ended June 30, 2018**

Administrative expenses	
Other renting expenses	1,532
Office salaries	58,387
Office expenses	14,941
Management fee	147,264
Administrative rent free unit	30,155
Legal expense - project	5,621
Auditing expense	12,800
Bad debts	5,762
Miscellaneous administrative expenses	13,831
	<hr/>
Total administrative expenses	290,293
	<hr/>
Utilities expense	
Electricity	12,373
Water	117,445
Gas	27,036
Sewer	92,638
	<hr/>
Total utilities expense	249,492
	<hr/>
Operating and maintenance expenses	
Payroll	53,246
Supplies	30,391
Contracts	1,147,329
Garbage and trash removal	23,465
Security payroll/contract	995
Vehicle and maintenance equipment operation and repairs	7,366
	<hr/>
Total operating and maintenance expenses	1,262,792
	<hr/>

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

Statement of Operations
Year Ended June 30, 2018

Taxes and insurance	
Real estate taxes	2,387
Property and liability insurance	32,566
Workmen's compensation	6,068
Health insurance and other employee benefits	60,771
Miscellaneous taxes, licenses, permits and insurance	<u>6,800</u>
Total taxes and insurance	<u>108,592</u>
Financial expenses	
Interest on first mortgage payable	599,732
Mortgage insurance premium/service charge	<u>69,630</u>
Total financial expenses	<u>669,362</u>
Total cost of operations before depreciation	<u>2,580,531</u>
Income (loss) before depreciation	<u>586,153</u>
Depreciation	
Depreciation expense	<u>570,251</u>
Total depreciation	<u>570,251</u>
Total expenses	<u>3,150,782</u>
Net income (loss)	<u><u>\$ 15,902</u></u>

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

Statement of Member's Equity (Deficit)
Year Ended June 30, 2018

Member's equity (deficit), June 30, 2017	\$ (6,032,392)
Distributions	(1,501,736)
Contributions	4,768,800
Net income (loss)	<u>15,902</u>
Member's equity (deficit), June 30, 2018	<u><u>\$ (2,749,426)</u></u>

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

Statement of Cash Flows
Year Ended June 30, 2018

Cash flows from operating activities	
Rental receipts	\$ 2,893,916
Interest receipts	1,229
Other operating receipts	<u>239,217</u>
Total receipts	<u>3,134,362</u>
Administrative expenses paid	(48,725)
Management fees paid	(134,593)
Utilities paid	(249,492)
Salaries and wages paid	(112,751)
Operating and maintenance paid	(1,913,331)
Real estate taxes paid	(2,387)
Property insurance paid	(32,566)
Miscellaneous taxes and insurance paid	(6,800)
Net tenant security deposits received (paid)	(2)
Other operating expenses paid	(66,839)
Interest paid on first mortgage	(582,834)
Mortgage insurance premium paid	<u>(69,277)</u>
Total disbursements	<u>(3,219,597)</u>
Net cash used in operating activities	<u>(85,235)</u>
Cash flows from investing activities	
Net withdrawals from mortgage escrows	1,076
Net withdrawals from reserve for replacements	482,527
Other investing activities (include detail)	
Payment of accounts payable - project improvement	(58,097)
Payment of accounts payable - entity	<u>(1,068,630)</u>
Net cash used in investing activities	<u>(643,124)</u>
Cash flows from financing activities	
Mortgage principal payments - first mortgage	(317,015)
Distributions to sole member	(1,501,736)
Other financing activities (include detail)	
Contributions from sole member	<u>1,649,130</u>
Net cash used in financing activities	<u>(169,621)</u>
Net decrease in cash	(897,980)
Cash, beginning	<u>1,685,769</u>
Cash, end	<u><u>\$ 787,789</u></u>

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

Statement of Cash Flows
Year Ended June 30, 2018

Reconciliation of net income (loss) to net cash used in operating activities	
Net income (loss)	\$ 15,902
Adjustments to reconcile net income (loss) to net cash used in operating activities	
Depreciation	570,251
Amortization of debt issuance costs	17,892
Bad debts	5,762
Changes in asset and liability accounts	
(Increase) decrease in assets	
Tenant accounts receivable	(3,016)
Accounts receivable - other	1,067
Prepaid expenses	353
Tenant security deposits funded	(202)
Increase (decrease) in liabilities	
Accounts payable	(689,039)
Accrued liabilities	12,548
Accrued interest payable	(994)
Tenant security deposits held in trust	200
Prepaid revenue	(218)
Entity/construction liability accounts (include detail)	
Accounts payable - entity	(15,741)
Total adjustments	(101,137)
Net cash used in operating activities	\$ (85,235)
Significant noncash investing and financing activities	
Contributions as reduction in accounts payable - entity	\$ 3,119,670

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

Notes to Financial Statements
June 30, 2018

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, 2018, the allowance for doubtful accounts is \$187.

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

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, 2018.

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

Notes to Financial Statements
June 30, 2018

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 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 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.

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, 2018, the balance in the escrow deposits is \$60,543.

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, 2018, the balance in the reserve for replacements is \$301,650.

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, 2018, the outstanding principal and accrued interest is \$15,328,186 and \$48,028, respectively.

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

Notes to Financial Statements
June 30, 2018

Debt issuance costs, net of accumulated amortization, totaled \$356,954 as of June 30, 2018, and are related to the first mortgage. Debt issuance costs on the above note are being amortized using an imputed interest rate of 3.97%. Amortization of debt issuance costs is \$17,892 for the year ended June 30, 2018 and is included in interest on first mortgage payable on the statement of operations.

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

The mortgage qualifies for an interest rebate subsidy from the U.S. Treasury under the Build America Bonds Program ("BABs"). During the year ended June 30, 2018, the Company received BABs interest rebate of \$190,027, 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, 2018 are as follows:

2019	\$ 329,144
2020	341,735
2021	354,808
2022	368,381
2023	382,473
Thereafter	<u>13,551,645</u>
Subtotal	15,328,186
Less unamortized debt issuance cost	<u>(356,954)</u>
Total	<u><u>\$ 14,971,232</u></u>

Note 5 - Management fee

The Company has entered into an agreement with SDHC in connection with the management of the rental operations of the Projects. The property management fee is based on 5% of the effective gross income of the Projects, as defined. For the year ended June 30, 2018, management fees of \$147,264 were incurred and charged to operations, of which \$12,671 remains payable as of June 30, 2018.

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, 2018, the Company recognized housing assistance payments amounting to \$844,255.

Note 7 - Related party transactions

Accounts payable - entity on the balance sheet includes operating expenses of the Company which were paid by SDHC under an expense reimbursement agreement. As of June 30, 2018, \$77,461 is due.

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

Notes to Financial Statements
June 30, 2018

Note 8 - 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, 2018.

Note 9 - 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 10 - 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 26, 2018, the date the financial statements were available to be issued, and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to financial statements.

Supplementary Information
Supporting Data Required by HUD

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

Supplementary Information

Balance Sheet Data
June 30, 2018

		<u>Assets</u>	
<u>Account No.</u>			
Current assets			
1120	Cash - operations		\$ 787,789
1130	Tenant accounts receivable	\$ 18,034	
1131	Allowance for doubtful accounts	(187)	
1130N	Net tenants accounts receivable		17,847
1200	Prepaid expenses		25,028
1100T	Total current assets		830,664
Deposits held in trust - funded			
1191	Tenant deposits		97,585
Restricted deposits and funded reserves			
1310	Escrow deposits	60,543	
1320	Reserve for replacements	301,650	
1300T	Total deposits		362,193
Rental property			
1410	Land	3,690,974	
1420	Buildings	11,060,209	
1400T	Total fixed assets	14,751,183	
1495	Less accumulated depreciation	(2,870,110)	
1400N	Net fixed assets		11,881,073
1000T	Total assets		\$ 13,171,515

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

Supplementary Information

Balance Sheet Data
June 30, 2018

Liabilities and Member's Equity (Deficit)

<u>Account No.</u>		
Current liabilities		
2110	Accounts payable - operations	\$ 686,122
2112	Accounts payable - project improvement items	210
2113	Accounts payable - entity	77,461
2120	Accrued wages payable	5,394
2123	Accrued management fee payable	12,671
2131	Accrued interest payable - first mortgage	48,028
2170	Mortgage payable - first mortgage (short-term)	329,144
2210	Prepaid revenue	<u>22,240</u>
2122T	Total current liabilities	1,181,270
Deposits liability		
2191	Tenant deposits held in trust (contra)	97,583
Long-term liabilities		
2320	Mortgage payable - first mortgage	<u>\$ 14,642,088</u>
2300T	Total long-term liabilities	<u>14,642,088</u>
2000T	Total liabilities	15,920,941
3130	Member's equity (deficit)	<u>(2,749,426)</u>
2033T	Total liabilities and member's equity (deficit)	<u><u>\$ 13,171,515</u></u>

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

Supplementary Information

Statement of Operations Data
Year Ended June 30, 2018

<u>Account No.</u>			
Rental revenue			
5120	Rent revenue - gross potential	\$ 2,102,140	
5121	Tenant assistance payments	<u>844,255</u>	
5100T	Total rental revenue		\$ 2,946,395
Vacancies			
5220	Apartments	(10,765)	
5250	Rental concessions	<u>(9,392)</u>	
5200T	Total vacancies		<u>(20,157)</u>
5152N	Net rental revenue		2,926,238
Financial revenue			
5410	Financial revenue - project operations	1,101	
5440	Revenue from investments - replacement reserve	<u>128</u>	
5400T	Total financial revenue		1,229
Other revenue			
5910	Laundry and vending	40,373	
5920	Tenant charges	8,817	
5990	Miscellaneous revenue	<u>190,027</u>	
5900T	Total other revenue		<u>239,217</u>
5000T	Total revenue		<u>3,166,684</u>

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

Supplementary Information

Statement of Operations Data
Year Ended June 30, 2018

Account No.

Administrative expenses

6250	Other renting expenses	1,532
6310	Office salaries	58,387
6311	Office expenses	14,941
6320	Management fee	147,264
6331	Administrative rent free unit	30,155
6340	Legal expense - project	5,621
6350	Auditing expense	12,800
6370	Bad debts	5,762
6390	Miscellaneous administrative expenses	13,831

6263T	Total administrative expenses	290,293
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Utilities expense

6450	Electricity	12,373
6451	Water	117,445
6452	Gas	27,036
6453	Sewer	92,638

6400T	Total utilities expense	249,492
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Operating and maintenance expenses

6510	Payroll	53,246
6515	Supplies	30,391
6520	Contracts	1,147,329
6525	Garbage and trash removal	23,465
6530	Security payroll/contract	995
6570	Vehicle and maintenance equipment operation and repairs	7,366

6500T	Total operating and maintenance expenses	1,262,792
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Northern SDHC FHA LLC
HUD Project No.: 129-11053

Supplementary Information

Statement of Operations Data
Year Ended June 30, 2018

<u>Account No.</u>			
Taxes and insurance			
6710	Real estate taxes	2,387	
6720	Property and liability insurance	32,566	
6722	Workmen's compensation	6,068	
6723	Health insurance and other employee benefits	60,771	
6790	Miscellaneous taxes, licenses, permits and insurance	<u>6,800</u>	
6700T	Total taxes and insurance		108,592
Financial expenses			
6820	Interest on first mortgage payable	599,732	
6850	Mortgage insurance premium/service charge	<u>69,630</u>	
6800T	Total financial expenses		<u>669,362</u>
6000T	Total cost of operations before depreciation		<u>2,580,531</u>
5060T	Income (loss) before depreciation		<u>586,153</u>
Depreciation			
6600	Depreciation expense	<u>570,251</u>	
	Total depreciation		<u>570,251</u>
5060N	Operating income (loss)		<u>15,902</u>
	Total expenses		<u>3,150,782</u>
3250	Net income (loss)		<u><u>\$ 15,902</u></u>

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

Supplementary Information

**Statement of Operations Data
Year Ended June 30, 2018**

<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>\$ 317,015</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>\$ 536,555</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, 2018**

<u>Account No.</u>		
S1100-010	Member's equity (deficit), June 30, 2017	\$ (6,032,392)
S1200-420	Distributions	(1,501,736)
S1100-020		
S1100-030/040	Contributions	4,768,800
3250	Net income (loss)	<u>15,902</u>
3130	Member's equity (deficit), June 30, 2018	<u><u>\$ (2,749,426)</u></u>

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

Supplementary Information

Statement of Cash Flows Data
Year Ended June 30, 2018

<u>Account No.</u>			
	Cash flows from operating activities		
S1200-010	Rental receipts	\$	2,893,916
S1200-020	Interest receipts		1,229
S1200-030	Other operating receipts		239,217
			<hr/>
S1200-040	Total receipts		3,134,362
			<hr/>
S1200-050	Administrative expenses paid		(48,725)
S1200-070	Management fees paid		(134,593)
S1200-090	Utilities paid		(249,492)
S1200-100	Salaries and wages paid		(112,751)
S1200-110	Operating and maintenance paid		(1,913,331)
S1200-120	Real estate taxes paid		(2,387)
S1200-140	Property insurance paid		(32,566)
S1200-150	Miscellaneous taxes and insurance paid		(6,800)
S1200-160	Net tenant security deposits received (paid)		(2)
S1200-170	Other operating expenses paid		(66,839)
S1200-180	Interest paid on first mortgage		(582,834)
S1200-210	Mortgage insurance premium paid		(69,277)
			<hr/>
S1200-230	Total disbursements		(3,219,597)
			<hr/>
S1200-240	Net cash used in operating activities		(85,235)
			<hr/>
	Cash flows from investing activities		
S1200-245	Net withdrawals from mortgage escrows		1,076
S1200-250	Net withdrawals from reserve for replacements		482,527
S1200-340	Other investing activities (include detail)		
	Payment of accounts payable - project		
S1200-341	improvement	\$	(58,097)
S1200-341	Payment of accounts payable - entity		(1,068,630)
			<hr/>
			(1,126,727)
			<hr/>
S1200-350	Net cash used in investing activities		(643,124)
			<hr/>

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

Supplementary Information

Statement of Cash Flows Data
Year Ended June 30, 2018

<u>Account No.</u>			
	Cash flows from financing activities		
S1200-360	Mortgage principal payments - first mortgage		(317,015)
S1200-420	Distributions to members		(1,501,736)
S1200-450	Other financing activities (include detail)		
S1200-451	Contributions from sole member	<u>1,649,130</u>	<u>1,649,130</u>
S1200-460	Net cash used in financing activities		<u>(169,621)</u>
S1200-470	Net decrease in cash		(897,980)
S1200-480	Cash, beginning		<u>1,685,769</u>
S1200T	Cash, end		<u><u>\$ 787,789</u></u>

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

Supplementary Information

Statement of Cash Flows Data
Year Ended June 30, 2018

<u>Account No.</u>		
	Reconciliation of net income (loss) to net cash used in operating activities	
3250	Net income (loss)	<u>\$ 15,902</u>
	Adjustments to reconcile net income (loss) to net cash used in operating activities	
6600	Depreciation	570,251
S1200-486	Amortization of debt issuance costs	17,892
	Changes in asset and liability accounts	
	(Increase) decrease in assets	
S1200-490	Tenant accounts receivable	(3,016)
S1200-500	Accounts receivable - other	1,067
S1200-520	Prepaid expenses	353
S1200-530	Tenant security deposits funded	(202)
	Increase (decrease) in liabilities	
S1200-540	Accounts payable	(689,039)
S1200-560	Accrued liabilities	12,548
S1200-570	Accrued interest payable	(994)
S1200-580	Tenant security deposits held in trust	200
S1200-590	Prepaid revenue	(218)
S1200-605	Entity/construction liability accounts (include detail)	
S1200-606	Accounts payable - entity	<u>\$ (15,741)</u>
		(15,741)
S1200-600	Other adjustments (include detail)	
S1200-601	Bad debts	<u>5,762</u>
		<u>5,762</u>
	Total adjustments	<u>(101,137)</u>
S1200-610	Net cash used in operating activities	<u><u>\$ (85,235)</u></u>
S1200-620	Comments	
	Contributions as reduction in accounts payable - entity	<u><u>\$ 3,119,670</u></u>

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

Supplementary Information
Year Ended June 30, 2018

Reserve for Replacements

<u>Account No.</u>		
1320P	Balance at June 30, 2017	\$ 784,177
1320DT	Total monthly deposits	53,900
1320INT	Interest income	128
1320WT	Approved withdrawals	<u>(536,555)</u>
1320	Balance at June 30, 2018	<u><u>\$ 301,650</u></u>

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

Supplementary Information
Period Ended December 31, 2017

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)	\$ 2,203,312
S1400-030	Accounts receivable - HUD	-
		<hr/>
S1400-050	Total cash	2,203,312
		<hr/>
S1400-060	Accrued mortgage interest payable	48,530
S1400-070	Delinquent mortgage principal payments	-
S1400-080	Delinquent deposits to reserve for replacements	-
S1400-090	Accounts payable (due within 30 days)	524,564
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)	5,517
S1400-130	Prepaid revenue (Account 2210)	25,582
S1400-140	Tenant security deposits liability (Account 2191)	97,383
		<hr/>
S1400-180	Less total current obligations	701,576
		<hr/>
S1400-190	Surplus cash (deficiency)	\$ 1,501,736
		<hr/>

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

Supplementary Information
Year Ended June 30, 2018

Computation of Surplus Cash

<u>Account No.</u>	<u>Part A - Compute Surplus Cash</u>	
S1300-010	Cash (Accounts 1120, 1170 and 1191)	\$ 885,374
1135	Accounts receivable - HUD	-
		<hr/>
S1300-040	Total cash	885,374
		<hr/>
S1300-050	Accrued mortgage interest payable	48,028
S1300-060	Delinquent mortgage principal payments	-
S1300-070	Delinquent deposits to reserve for replacements	-
S1300-075	Accounts payable (due within 30 days)	686,122
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)	18,065
2210	Prepaid revenue (Account 2210)	22,240
2191	Tenant security deposits liability (Account 2191)	97,583
S1300-110	Other current obligations (describe in detail)	
S1300-120	Accounts payable - entity	<u>\$ 77,461</u>
		<hr/>
		77,461
		<hr/>
S1300-140	Less total current obligations	949,499
		<hr/>
S1300-150	Surplus cash (deficiency)	<u><u>\$ (64,125)</u></u>

Changes in Fixed Asset Accounts

	<u>Assets</u>			
	<u>Balance</u>			<u>Balance</u>
	<u>06/30/17</u>	<u>Additions</u>	<u>Deletions</u>	<u>06/30/18</u>
Land	\$ 3,690,974	\$ -	\$ -	\$ 3,690,974
Buildings	<u>11,060,209</u>	<u>-</u>	<u>-</u>	<u>11,060,209</u>
	<u>\$ 14,751,183</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,751,183</u>
Accumulated depreciation	<u>\$ 2,299,859</u>	<u>\$ 570,251</u>	<u>\$ -</u>	<u>\$ 2,870,110</u>
Total net book value				<u><u>\$ 11,881,073</u></u>

Detail of Accounts - Statement of Operations

Miscellaneous Other Revenue (Account No. 5990)

Interest rebate - Build America Bonds	<u><u>\$ 190,027</u></u>
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Northern SDHC FHA LLC
HUD Project No.: 129-11053

Supplementary Information
Year Ended June 30, 2018

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>\$ 134,593</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, 2018, 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 26, 2018.

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.

CohnReznick LLP

Sacramento, California
September 26, 2018

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, 2018. Northern SDHC FHA LLC's major HUD program is Section 223(f) mortgage insurance program.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Northern SDHC FHA LLC's major HUD program based on our audit of the compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major HUD program occurred. An audit includes examining, on a test basis, evidence about Northern SDHC FHA LLC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major program. However, our audit does not provide a legal determination of Northern SDHC FHA LLC's compliance.

Opinion on the Major HUD Program

In our opinion, Northern SDHC FHA LLC complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major HUD program for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of Northern SDHC FHA LLC is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered Northern SDHC FHA LLC's internal control over compliance with the requirements that could have a direct and material effect on its major HUD program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major HUD program and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Northern SDHC FHA LLC's internal control over compliance.

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

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

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



Sacramento, California

September 26, 2018

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

**Schedule of Findings, Questioned Costs and Recommendations
June 30, 2018**

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, 2018**

1. Audit Report, dated September 27, 2017, for the year ended June 30, 2017, issued by CohnReznick LLP.
 - There are no open findings from the prior audit period.
2. There were no reports issued by HUD OIG or other federal agencies or contract administrators during the period covered by this audit.
3. There were no letters or reports issued by HUD management during the period covered by this audit.



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**Southern SDHC FHA LLC
HUD Project No.: 129-11055**

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

June 30, 2018

Southern SDHC FHA LLC
HUD Project No.: 129-11055

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Southern SDHC FHA LLC
HUD Project No.: 129-11055

June 30, 2018

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

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

Richard Gentry Date
Chief Executive Officer

Southern SDHC FHA LLC
HUD Project No.: 129-11055

June 30, 2018

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

Richard Gentry
Chief Executive Officer

Date

Tracey McDermott
Sr. Vice President &
Chief Financial Officer

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, 2018, 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, 2018, 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 19 to 32 is presented for purposes of additional analysis and is not a required part of the financial statements.

The accompanying supplementary information on pages 19 to 32 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information on pages 19 to 32 is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2018, 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 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 Southern 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 Southern SDHC FHA LLC's internal control over financial reporting and compliance.



Sacramento, California
September 26, 2018

Taxpayer Identification Number:
22-1478099

Lead Auditor: Ahamadou Alainchar Bocar, CPA

Southern SDHC FHA LLC
HUD Project No.: 129-11055

Balance Sheet
June 30, 2018

Assets

Current assets	
Cash - operations	\$ 1,073,935
Tenant accounts receivable	2,297
Allowance for doubtful accounts	(579)
Accounts receivable - HUD	314
Accounts and notes receivable - operations	22,372
Prepaid expenses	36,375
	<hr/>
Total current assets	1,134,714
	<hr/>
Deposits held in trust - funded	
Tenant deposits	175,820
	<hr/>
Restricted deposits and funded reserves	
Escrow deposits	86,548
Reserve for replacements	635,586
	<hr/>
Total restricted deposits and funded reserves	722,134
	<hr/>
Rental property	
Land	3,682,655
Buildings and improvements	10,528,694
	<hr/>
	14,211,349
Less accumulated depreciation	(2,810,437)
	<hr/>
Total rental property	11,400,912
	<hr/>
Total assets	\$ 13,433,580
	<hr/>

Southern SDHC FHA LLC
HUD Project No.: 129-11055

Balance Sheet
June 30, 2018

Liabilities and Member's Equity (Deficit)

Current liabilities	
Accounts payable - operations	\$ 88,713
Accounts payable - entity	108,927
Accrued wages payable	15,226
Accrued management fee payable	19,192
Accrued interest payable - first mortgage	68,658
Mortgage payable - first mortgage (short-term)	470,522
Prepaid revenue	<u>34,407</u>
Total current liabilities	805,645
Deposits liability	
Tenant deposits held in trust (contra)	<u>175,816</u>
Long-term liabilities	
Mortgage payable - first mortgage, net	<u>20,952,443</u>
Total long-term liabilities	<u>20,952,443</u>
Total liabilities	<u>21,933,904</u>
Member's equity (deficit)	<u>(8,500,324)</u>
Total liabilities and member's equity (deficit)	<u><u>\$ 13,433,580</u></u>

Southern SDHC FHA LLC
HUD Project No.: 129-11055

Statement of Operations
Year Ended June 30, 2018

Rental revenue	
Rent revenue - gross potential	\$ 2,945,966
Tenant assistance payments	<u>1,538,861</u>
Total rental revenue	<u>4,484,827</u>
Vacancies	
Apartments	(30,025)
Rental concessions	<u>(8,975)</u>
Total vacancies	<u>(39,000)</u>
Net rental revenue	<u>4,445,827</u>
Financial revenue	
Financial revenue - project operations	541
Revenue from investments - replacement reserve	<u>252</u>
Total financial revenue	<u>793</u>
Other revenue	
Laundry and vending	55,338
Tenant charges	26,486
Miscellaneous revenue	<u>271,610</u>
Total other revenue	<u>353,434</u>
Total revenue	<u>4,800,054</u>

Southern SDHC FHA LLC
HUD Project No.: 129-11055

Statement of Operations
Year Ended June 30, 2018

Administrative expenses	
Management consultants	1,015
Other renting expenses	4,409
Office salaries	126,203
Office expenses	25,909
Management fee	225,065
Administrative rent free unit	13,164
Legal expense - project	6,809
Auditing expense	12,800
Bad debts	19,448
Miscellaneous administrative expenses	2,532
	<hr/>
Total administrative expenses	437,354
	<hr/>
Utilities expense	
Electricity	31,079
Water	198,841
Gas	49,003
Sewer	128,586
	<hr/>
Total utilities expense	407,509
	<hr/>
Operating and maintenance expenses	
Payroll	120,752
Supplies	61,733
Contracts	1,804,514
Garbage and trash removal	57,427
Security payroll/contract	33,721
Vehicle and maintenance equipment operation and repairs	1,235
	<hr/>
Total operating and maintenance expenses	2,079,382
	<hr/>

Southern SDHC FHA LLC
HUD Project No.: 129-11055

Statement of Operations
Year Ended June 30, 2018

Taxes and insurance	
Property and liability insurance	44,037
Workmen's compensation	9,647
Health insurance and other employee benefits	99,719
Miscellaneous taxes, licenses, permits and insurance	<u>6,800</u>
Total taxes and insurance	<u>160,203</u>
Financial expenses	
Interest on first mortgage payable	856,289
Mortgage insurance premium/service charge	<u>99,539</u>
Total financial expenses	<u>955,828</u>
Total cost of operations before depreciation	<u>4,040,276</u>
Income (loss) before depreciation	<u>759,778</u>
Depreciation	
Depreciation expense	<u>576,498</u>
Total depreciation	<u>576,498</u>
Total expenses	<u>4,616,774</u>
Net income (loss)	<u><u>\$ 183,280</u></u>

Southern SDHC FHA LLC
HUD Project No.: 129-11055

Statement of Member's Equity (Deficit)
Year Ended June 30, 2018

Member's equity (deficit), June 30, 2017	\$ (13,209,577)
Distributions	(1,397,470)
Contributions	5,923,443
Net income (loss)	<u>183,280</u>
Member's equity (deficit), June 30, 2018	<u><u>\$ (8,500,324)</u></u>

Southern SDHC FHA LLC
HUD Project No.: 129-11055

Statement of Cash Flows
Year Ended June 30, 2018

Cash flows from operating activities	
Rental receipts	\$ 4,427,934
Interest receipts	793
Other operating receipts	<u>353,434</u>
Total receipts	<u>4,782,161</u>
Administrative expenses paid	(598,352)
Management fees paid	(205,873)
Utilities paid	(407,509)
Salaries and wages paid	(279,405)
Operating and maintenance paid	(2,014,553)
Property insurance paid	(44,037)
Miscellaneous taxes and insurance paid	(6,800)
Net tenant security deposits received (paid)	(3)
Other operating expenses paid	(109,366)
Interest paid on first mortgage	(833,180)
Mortgage insurance premium paid	<u>(99,033)</u>
Total disbursements	<u>(4,598,111)</u>
Net cash provided by operating activities	<u>184,050</u>
Cash flows from investing activities	
Net withdrawals from mortgage escrows	1,538
Net deposits to reserve for replacements	(90,252)
Other investing activities (include detail)	
Payment of accounts payable - project improvement	<u>(750,440)</u>
Net cash used in investing activities	<u>(839,154)</u>
Cash flows from financing activities	
Mortgage principal payments - first mortgage	(453,185)
Distributions to sole member	(1,397,470)
Other financing activities (include detail)	
Contributions by sole member	<u>2,538,826</u>
Net cash provided by financing activities	<u>688,171</u>
Net increase in cash	33,067
Cash, beginning	<u>1,040,868</u>
Cash, end	<u><u>\$ 1,073,935</u></u>

Southern SDHC FHA LLC
HUD Project No.: 129-11055

Statement of Cash Flows
Year Ended June 30, 2018

Reconciliation of net income (loss) to net cash provided by operating activities	
Net income (loss)	\$ 183,280
Adjustments to reconcile net income (loss) to net cash provided by operating	
Depreciation	576,498
Amortization of debt issuance costs	24,529
Bad debts	19,448
Construction in progress reclassified as operating expenses	216,126
Changes in asset and liability accounts	
(Increase) decrease in assets	
Tenant accounts receivable	(13,016)
Accounts receivable - other	1,420
Prepaid expenses	506
Tenant security deposits funded	2,066
Increase (decrease) in liabilities	
Accounts payable	(165,826)
Accrued liabilities	20,463
Accrued interest payable	(1,420)
Tenant security deposits held in trust	(2,069)
Prepaid revenue	7,328
Entity/construction liability accounts (include detail)	
Operating costs included in accounts payable - project development	(685,283)
Total adjustments	770
Net cash provided by operating activities	\$ 184,050
Significant noncash investing and financing activities	
Contributions as reduction in accounts payable - entity	\$ 3,384,617

Southern SDHC FHA LLC
HUD Project No.: 129-11055

Notes to Financial Statements
June 30, 2018

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 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, 2018, the allowance for doubtful accounts is \$579.

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
----------------------------	---------------

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 during the year ended June 30, 2018.

Southern SDHC FHA LLC
HUD Project No.: 129-11055

Notes to Financial Statements
June 30, 2018

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 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 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.

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, 2018, the balance in the escrow deposits is \$86,548.

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, 2018, the balance in the reserve for replacements is \$635,586.

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, 2018, the outstanding principal and accrued interest is \$21,912,136 and \$68,658, respectively.

Southern SDHC FHA LLC
HUD Project No.: 129-11055

Notes to Financial Statements
June 30, 2018

Debt issuance costs, net of accumulated amortization, totaled \$489,171 as of June 30, 2018, and are related to the first mortgage. Debt issuance costs on the above note are being amortized using an imputed interest rate of 3.96%. Amortization of debt issuance costs is \$24,529 for the year ended June 30, 2018, and is included in interest on first mortgage payable on the statement of operations.

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

The mortgage qualifies for an interest rebate subsidy from the U.S. Treasury under the Build America Bonds Program ("BABs"). During the year ended June 30, 2018, the Company received BABs interest rebate of \$271,610, 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, 2018 are as follows:

2019	\$ 470,522
2020	488,521
2021	507,209
2022	526,613
2023	546,758
Thereafter	<u>19,372,513</u>
Subtotal	21,912,136
Less unamortized debt issuance cost	<u>(489,171)</u>
Total	<u>\$ 21,422,965</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, 2018, management fees of \$225,065 were incurred and charged to operations, of which \$19,192 remains payable at June 30, 2018.

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, 2018, the Company recognized housing assistance payments amounting to \$1,538,861.

Note 7 - Related party transactions

Accounts payable - entity on the balance sheet includes operating expenses of the Company which were paid by SDHC under an expense reimbursement agreement. As of June 30, 2018, \$108,927 is due.

Southern SDHC FHA LLC
HUD Project No.: 129-11055

Notes to Financial Statements
June 30, 2018

Note 8 - 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, 2018.

Note 9 - 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 10 - 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 26, 2018, the date the financial statements were available to be issued, and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to financial statements.

Supplementary Information
Supporting Data Required by HUD

Southern SDHC FHA LLC
HUD Project No.: 129-11055

Supplementary Information

Balance Sheet Data
June 30, 2018

<u>Account No.</u>		<u>Assets</u>	
Current assets			
1120	Cash - operations		\$ 1,073,935
1130	Tenant accounts receivable	\$ 2,297	
1131	Allowance for doubtful accounts	(579)	
1130N	Net tenants accounts receivable		1,718
1135	Accounts receivable - HUD		314
1140	Accounts and notes receivable - operations		22,372
1200	Prepaid expenses		36,375
1100T	Total current assets		1,134,714
Deposits held in trust - funded			
1191	Tenant deposits		175,820
Restricted deposits and funded reserves			
1310	Escrow deposits	86,548	
1320	Reserve for replacements	635,586	
1300T	Total deposits		722,134
Rental property			
1410	Land	3,682,655	
1420	Buildings	10,528,694	
1400T	Total fixed assets	14,211,349	
1495	Less accumulated depreciation	(2,810,437)	
1400N	Net fixed assets		11,400,912
1000T	Total assets		\$ 13,433,580

Southern SDHC FHA LLC
HUD Project No.: 129-11055

Supplementary Information

Balance Sheet Data
June 30, 2018

<u>Account No.</u>		<u>Liabilities and Member's Equity (Deficit)</u>	
Current liabilities			
2110	Accounts payable - operations	\$	88,713
2113	Accounts payable - entity		108,927
2120	Accrued wages payable		15,226
2123	Accrued management fee payable		19,192
2131	Accrued interest payable - first mortgage		68,658
2170	Mortgage payable - first mortgage (short-term)		470,522
2210	Prepaid revenue		<u>34,407</u>
2122T	Total current liabilities		805,645
Deposits liability			
2191	Tenant deposits held in trust (contra)		175,816
Long-term liabilities			
2320	Mortgage payable - first mortgage	<u>\$ 20,952,443</u>	
2300T	Total long-term liabilities		<u>20,952,443</u>
2000T	Total liabilities		21,933,904
3130	Member's equity (deficit)		<u>(8,500,324)</u>
2033T	Total liabilities and member's equity (deficit)	\$	<u>13,433,580</u>

Southern SDHC FHA LLC
HUD Project No.: 129-11055

Supplementary Information

Statement of Operations Data
Year Ended June 30, 2018

<u>Account No.</u>			
Rental revenue			
5120	Rent revenue - gross potential	\$ 2,945,966	
5121	Tenant assistance payments	<u>1,538,861</u>	
5100T	Total rental revenue		\$ 4,484,827
Vacancies			
5220	Apartments	(30,025)	
5250	Rental concessions	<u>(8,975)</u>	
5200T	Total vacancies		<u>(39,000)</u>
5152N	Net rental revenue		4,445,827
Financial revenue			
5410	Financial revenue - project operations	541	
5440	Revenue from investments - replacement reserve	<u>252</u>	
5400T	Total financial revenue		793
Other revenue			
5910	Laundry and vending	55,338	
5920	Tenant charges	26,486	
5990	Miscellaneous revenue	<u>271,610</u>	
5900T	Total other revenue		<u>353,434</u>
5000T	Total revenue		<u>4,800,054</u>

Southern SDHC FHA LLC
HUD Project No.: 129-11055

Supplementary Information

Statement of Operations Data
Year Ended June 30, 2018

<u>Account No.</u>			
Administrative expenses			
6204	Management consultants	1,015	
6250	Other renting expenses	4,409	
6310	Office salaries	126,203	
6311	Office expenses	25,909	
6320	Management fee	225,065	
6331	Administrative rent free unit	13,164	
6340	Legal expense - project	6,809	
6350	Auditing expense	12,800	
6370	Bad debts	19,448	
6390	Miscellaneous administrative expenses	2,532	
6263T	Total administrative expenses		437,354
Utilities expense			
6450	Electricity	31,079	
6451	Water	198,841	
6452	Gas	49,003	
6453	Sewer	128,586	
6400T	Total utilities expense		407,509
Operating and maintenance expenses			
6510	Payroll	120,752	
6515	Supplies	61,733	
6520	Contracts	1,804,514	
6525	Garbage and trash removal	57,427	
6530	Security payroll/contract	33,721	
6570	Vehicle and maintenance equipment operation and repairs	1,235	
6500T	Total operating and maintenance expenses		2,079,382

Southern SDHC FHA LLC
HUD Project No.: 129-11055

Supplementary Information

Statement of Operations Data
Year Ended June 30, 2018

<u>Account No.</u>			
Taxes and insurance			
6720	Property and liability insurance	44,037	
6722	Workmen's compensation	9,647	
6723	Health insurance and other employee benefits	99,719	
6790	Miscellaneous taxes, licenses, permits and insurance	<u>6,800</u>	
6700T	Total taxes and insurance		160,203
Financial expenses			
6820	Interest on first mortgage payable	856,289	
6850	Mortgage insurance premium/service charge	<u>99,539</u>	
6800T	Total financial expenses		<u>955,828</u>
6000T	Total cost of operations before depreciation		<u>4,040,276</u>
5060T	Income (loss) before depreciation		<u>759,778</u>
Depreciation			
6600	Depreciation expense	<u>576,498</u>	
	Total depreciation		<u>576,498</u>
5060N	Operating income (loss)		<u>183,280</u>
	Total expenses		<u>4,616,774</u>
3250	Net income (loss)		<u><u>\$ 183,280</u></u>

Southern SDHC FHA LLC
HUD Project No.: 129-11055

Supplementary Information

Statement of Operations Data
Year Ended June 30, 2018

<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>\$ 453,185</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, 2018**

<u>Account No.</u>		
S1100-010	Member's equity (deficit), June 30, 2017	\$ (13,209,577)
S1200-420	Distributions	(1,397,470)
S1100-020		
S1100-030/040	Contributions	5,923,443
3250	Net income (loss)	<u>183,280</u>
3130	Member's equity (deficit), June 30, 2018	<u><u>\$ (8,500,324)</u></u>

Southern SDHC FHA LLC
HUD Project No.: 129-11055

Supplementary Information

Statement of Cash Flows Data
Year Ended June 30, 2018

<u>Account No.</u>		
	Cash flows from operating activities	
S1200-010	Rental receipts	\$ 4,427,934
S1200-020	Interest receipts	793
S1200-030	Other operating receipts	<u>353,434</u>
S1200-040	Total receipts	<u>4,782,161</u>
S1200-050	Administrative expenses paid	(598,352)
S1200-070	Management fees paid	(205,873)
S1200-090	Utilities paid	(407,509)
S1200-100	Salaries and wages paid	(279,405)
S1200-110	Operating and maintenance paid	(2,014,553)
S1200-140	Property insurance paid	(44,037)
S1200-150	Miscellaneous taxes and insurance paid	(6,800)
S1200-160	Net tenant security deposits received (paid)	(3)
S1200-170	Other operating expenses paid	(109,366)
S1200-180	Interest paid on first mortgage	(833,180)
S1200-210	Mortgage insurance premium paid	<u>(99,033)</u>
S1200-230	Total disbursements	<u>(4,598,111)</u>
S1200-240	Net cash provided by operating activities	<u>184,050</u>
	Cash flows from investing activities	
S1200-245	Net withdrawals from mortgage escrows	1,538
S1200-250	Net deposits to reserve for replacements	(90,252)
S1200-340	Other investing activities (include detail)	
S1200-341	Payment of accounts payable - project improvement	<u>\$ (750,440)</u>
		<u>(750,440)</u>
S1200-350	Net cash used in investing activities	<u>(839,154)</u>

Southern SDHC FHA LLC
HUD Project No.: 129-11055

Supplementary Information

Statement of Cash Flows Data
Year Ended June 30, 2018

<u>Account No.</u>			
	Cash flows from financing activities		
S1200-360	Mortgage principal payments - first mortgage		(453,185)
S1200-420	Distributions to members		(1,397,470)
S1200-450	Other financing activities (include detail)		
S1200-451	Contributions by sole member	<u>2,538,826</u>	<u>2,538,826</u>
S1200-460	Net cash provided by financing activities		<u>688,171</u>
S1200-470	Net increase in cash		33,067
S1200-480	Cash, beginning		<u>1,040,868</u>
S1200T	Cash, end		<u><u>\$ 1,073,935</u></u>

Southern SDHC FHA LLC
HUD Project No.: 129-11055

Supplementary Information

Statement of Cash Flows Data
Year Ended June 30, 2018

<u>Account No.</u>			
	Reconciliation of net income (loss) to net cash		
3250	Net income (loss)	\$	183,280
	Adjustments to reconcile net income (loss) to		
6600	Depreciation		576,498
S1200-486	Amortization of debt issuance costs		24,529
	Changes in asset and liability accounts		
	(Increase) decrease in assets		
S1200-490	Tenant accounts receivable		(13,016)
S1200-500	Accounts receivable - other		1,420
S1200-520	Prepaid expenses		506
S1200-530	Tenant security deposits funded		2,066
	Increase (decrease) in liabilities		
S1200-540	Accounts payable		(165,826)
S1200-560	Accrued liabilities		20,463
S1200-570	Accrued interest payable		(1,420)
S1200-580	Tenant security deposits held in trust		(2,069)
S1200-590	Prepaid revenue		7,328
S1200-605	Entity/construction liability accounts (include detail)		
	Operating costs included in accounts		
S1200-606	payable - project development	\$ (685,283)	(685,283)
S1200-600	Other adjustments (include detail)		
S1200-601	Bad debts	19,448	
	Construction is progress reclassified as		
S1200-601	operating expenses	216,126	235,574
	Total adjustments		770
S1200-610	Net cash provided by operating activities	\$	184,050
S1200-620	Comments		
	Contributions as reduction in accounts payable - entity	\$	3,384,617

Southern SDHC FHA LLC
HUD Project No.: 129-11055

Supplementary Information
Year Ended June 30, 2018

Reserve for Replacements

<u>Account No.</u>		
1320P	Balance at June 30, 2017	\$ 545,334
1320DT	Total monthly deposits	90,000
1320INT	Interest income	<u>252</u>
1320	Balance at June 30, 2018	<u><u>\$ 635,586</u></u>

Southern SDHC FHA LLC
HUD Project No.: 129-11055

Supplementary Information
Period Ended December 31, 2017

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)	\$ 1,469,754
S1400-030	Accounts receivable - HUD	-
		<hr/>
S1400-050	Total cash	1,469,754
		<hr/>
S1400-060	Accrued mortgage interest payable	69,375
S1400-070	Delinquent mortgage principal payments	-
S1400-080	Delinquent deposits to reserve for replacements	-
S1400-090	Accounts payable (due within 30 days)	209,105
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)	11,820
S1400-130	Prepaid revenue (Account 2210)	31,467
S1400-140	Tenant security deposits liability (Account 2191)	178,137
		<hr/>
S1400-180	Less total current obligations	499,904
		<hr/>
S1400-190	Surplus cash (deficiency)	\$ 969,850
		<hr/> <hr/>

Southern SDHC FHA LLC
HUD Project No.: 129-11055

Supplementary Information
Year Ended June 30, 2018

Computation of Surplus Cash

<u>Account No.</u>	<u>Part A - Compute Surplus Cash</u>	
S1300-010	Cash (Accounts 1120, 1170 and 1191)	\$ 1,249,755
1135	Accounts receivable - HUD	314
		<hr/>
S1300-040	Total cash	1,250,069
		<hr/>
S1300-050	Accrued mortgage interest payable	68,658
S1300-060	Delinquent mortgage principal payments	-
S1300-070	Delinquent deposits to reserve for replacements	-
S1300-075	Accounts payable (due within 30 days)	88,713
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)	34,418
2210	Prepaid revenue (Account 2210)	34,407
2191	Tenant security deposits liability (Account 2191)	175,816
S1300-110	Other current obligations (describe in detail)	
S1300-120	Accounts payable - entity	\$ 108,927
		<hr/>
		108,927
		<hr/>
S1300-140	Less total current obligations	510,939
		<hr/>
S1300-150	Surplus cash (deficiency)	\$ 739,130
		<hr/>

Changes in Fixed Asset Accounts

	Assets			
	Balance 06/30/17	Additions	Deletions	Balance 06/30/18
	<hr/>	<hr/>	<hr/>	<hr/>
Land	\$ 3,682,655	\$ -	\$ -	\$ 3,682,655
Buildings	8,189,375	2,339,319	-	10,528,694
Miscellaneous fixed assets	2,555,445	-	2,555,445	-
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 14,427,475	\$ 2,339,319	\$ 2,555,445	\$ 14,211,349
	<hr/>	<hr/>	<hr/>	<hr/>
Accumulated depreciation	\$ 2,233,939	\$ 576,498	\$ -	\$ 2,810,437
	<hr/>	<hr/>	<hr/>	<hr/>
Total net book value				\$ 11,400,912
				<hr/>

Southern SDHC FHA LLC
HUD Project No.: 129-11055

Supplementary Information
Year Ended June 30, 2018

Fixed Asset Detail

Additions to Buildings Account

Item and quantity	Amount
Building improvements - project rehabilitation	\$ 2,339,319

Deductions from Miscellaneous Fixed Assets Account

Item and quantity	Amount
Construction in process placed in service	\$ 2,555,445

Detail of Accounts - Balance Sheet

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

Other BABs receivable	\$ 22,372
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Detail of Accounts - Statement of Operations

Miscellaneous Other Revenue (Account No. 5990)

Interest rebate - Build America Bonds	\$ 271,610
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Other Information

Related party transactions detail:

Account No.	Entity name	Amount paid
S3100-210	Management fee paid to SDHC	\$ 205,873

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, 2018 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 26, 2018.

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.

CohnReznick LLP

Sacramento, California
September 26, 2018

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, 2018. Southern SDHC FHA LLC's major HUD program is 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, 2018.

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.



Sacramento, California

September 26, 2018

**Southern SDHC FHA LLC
HUD Project No.: 129-11055**

**Schedule of Findings, Questioned Costs and Recommendations
June 30, 2018**

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, 2018**

1. Audit Report, dated September 27, 2017, for the year ended June 30, 2017, 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. There were no other letters or report issued by HUD management during the period covered by this audit.



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**Central SDHC FHA LLC
HUD Project No.: 129-11054**

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

June 30, 2018

Central SDHC FHA LLC
HUD Project No.: 129-11054

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Central SDHC FHA LLC
HUD Project No.: 129-11054

June 30, 2018

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

Tracey McDermott Date
Sr. 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, 2018

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

Tracey McDermott
Sr. Vice President &
Chief Financial Officer

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, 2018, 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, 2018, 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 19 to 32 is presented for purposes of additional analysis and is not a required part of the financial statements.

The accompanying supplementary information on pages 19 to 32 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information on pages 19 to 32 is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2018 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 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 Central 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 Central SDHC FHA LLC's internal control over financial reporting and compliance.



Sacramento, California
September 26, 2018

Taxpayer Identification Number:
22-1478099

Lead Auditor: Ahamadou Alainchar Bocar, CPA

Central SDHC FHA LLC
HUD Project No.: 129-11054

Balance Sheet
June 30, 2018

Assets

Current assets	
Cash - operations	\$ 709,850
Tenant accounts receivable	13,087
Allowance for doubtful accounts	(1,943)
Accounts receivable - HUD	1,335
Prepaid expenses	30,485
	<hr/>
Total current assets	752,814
	<hr/>
Deposits held in trust - funded	
Tenant deposits	150,605
	<hr/>
Restricted deposits and funded reserves	
Escrow deposits	49,019
Reserve for replacements	600,311
	<hr/>
Total restricted deposits and funded reserves	649,330
	<hr/>
Rental property	
Land	3,852,360
Buildings and improvements	8,442,306
Miscellaneous fixed assets	81,814
	<hr/>
	12,376,480
Less accumulated depreciation	(2,144,647)
	<hr/>
Total rental property	10,231,833
	<hr/>
Total assets	\$ 11,784,582
	<hr/>

Central SDHC FHA LLC
HUD Project No.: 129-11054

Balance Sheet
June 30, 2018

Liabilities and Member's Equity (Deficit)

Current liabilities	
Accounts payable - operations	\$ 100,711
Accounts payable - entity	95,528
Accrued wages payable	10,432
Accrued management fee payable	15,278
Accrued interest payable - first mortgage	41,859
Mortgage payable - first mortgage (short-term)	299,088
Prepaid revenue	<u>30,477</u>
Total current liabilities	593,373
Deposits liability	
Tenant deposits held in trust (contra)	<u>150,602</u>
Long-term liabilities	
Mortgage payable - first mortgage, net	<u>13,136,533</u>
Total long-term liabilities	<u>13,136,533</u>
Total liabilities	<u>13,880,508</u>
Member's equity (deficit)	<u>(2,095,926)</u>
Total liabilities and member's equity (deficit)	<u><u>\$ 11,784,582</u></u>

Central SDHC FHA LLC
HUD Project No.: 129-11054

Statement of Operations
Year Ended June 30, 2018

Rental revenue	
Rent revenue - gross potential	\$ 2,348,382
Tenant assistance payments	<u>1,267,415</u>
Total rental revenue	<u>3,615,797</u>
Vacancies	
Apartment	(54,024)
Rental concessions	<u>(18,566)</u>
Total vacancies	<u>(72,590)</u>
Net rental revenue	<u>3,543,207</u>
Financial revenue	
Financial revenue - project operations	517
Revenue from investments - replacement reserve	<u>241</u>
Total financial revenue	<u>758</u>
Other revenue	
Laundry and vending	29,331
Tenant charges	<u>22,020</u>
Total other revenue	<u>51,351</u>
Total revenue	<u>3,595,316</u>

Central SDHC FHA LLC
HUD Project No.: 129-11054

Statement of Operations
Year Ended June 30, 2018

Administrative expenses	
Other renting expenses	15,409
Office salaries	125,667
Office expenses	19,356
Management fee	176,272
Administrative rent free unit	69,125
Legal expense - project	11,554
Auditing expense	12,800
Bad debts	35,244
Miscellaneous administrative expenses	3,336
	<hr/>
Total administrative expenses	468,763
	<hr/>
Utilities expense	
Electricity	22,741
Water	172,466
Gas	31,288
Sewer	125,893
	<hr/>
Total utilities expense	352,388
	<hr/>
Operating and maintenance expenses	
Payroll	103,524
Supplies	79,560
Contracts	541,014
Garbage and trash removal	36,244
Security payroll/contract	34,715
Vehicle and maintenance equipment operation and repairs	2,997
Miscellaneous operating and maintenance expenses	305
	<hr/>
Total operating and maintenance expenses	798,359
	<hr/>

Central SDHC FHA LLC
HUD Project No.: 129-11054

Statement of Operations
Year Ended June 30, 2018

Taxes and insurance	
Real estate taxes	1,236
Property and liability insurance	48,426
Workmen's compensation	8,467
Health insurance and other employee benefits	77,129
Miscellaneous taxes, licenses, permits and insurance	<u>6,800</u>
Total taxes and insurance	<u>142,058</u>
Financial expenses	
Interest on first mortgage payable	523,508
Mortgage insurance premium/service charge	<u>62,414</u>
Total financial expenses	<u>585,922</u>
Total cost of operations before depreciation	<u>2,347,490</u>
Income (loss) before depreciation	<u>1,247,826</u>
Depreciation	
Depreciation expense	<u>430,892</u>
Total depreciation	<u>430,892</u>
Total expenses	<u>2,778,382</u>
Net income (loss)	<u><u>\$ 816,934</u></u>

Central SDHC FHA LLC
HUD Project No.: 129-11054

Statement of Member's Equity (Deficit)
Year Ended June 30, 2018

Member's equity (deficit), June 30, 2017	\$ (5,641,174)
Distributions	(980,505)
Contributions	3,708,819
Net income (loss)	<u>816,934</u>
Member's equity (deficit), June 30, 2018	<u><u>\$ (2,095,926)</u></u>

Central SDHC FHA LLC
HUD Project No.: 129-11054

Statement of Cash Flows
Year Ended June 30, 2018

Cash flows from operating activities	
Rental receipts	\$ 3,451,651
Interest receipts	758
Other operating receipts	<u>51,351</u>
Total receipts	<u>3,503,760</u>
Administrative expenses paid	(50,351)
Management fees paid	(160,994)
Utilities paid	(338,325)
Salaries and wages paid	(266,518)
Operating and maintenance paid	(820,740)
Real estate taxes paid	(1,236)
Property insurance paid	(48,426)
Miscellaneous taxes and insurance paid	(6,800)
Net tenant security deposits received (paid)	(2)
Other operating expenses paid	(47,357)
Interest paid on first mortgage	(508,039)
Mortgage insurance premium paid	<u>(62,091)</u>
Total disbursements	<u>(2,310,879)</u>
Net cash provided by operating activities	<u>1,192,881</u>
Cash flows from investing activities	
Net withdrawals from mortgage escrows	882
Net deposits to reserve for replacements	(70,441)
Net purchases of fixed assets	(219,617)
Other investing activities (include detail)	
Payment of construction costs included in accounts payable - operations	(466,125)
Payment of construction costs included in accounts payable - project improvement	(402,742)
Payment of construction costs included in accounts payable - entity	<u>(409,182)</u>
Net cash used in investing activities	<u>(1,567,225)</u>
Cash flows from financing activities	
Mortgage principal payments - first mortgage	(288,384)
Distributions to sole member	(980,505)
Other financing activities (include detail)	
Contributions from sole member	<u>1,087,625</u>
Net cash used in financing activities	<u>(181,264)</u>
Net decrease in cash	(555,608)
Cash, beginning	<u>1,265,458</u>
Cash, end	<u><u>\$ 709,850</u></u>

Central SDHC FHA LLC
HUD Project No.: 129-11054

Statement of Cash Flows
Year Ended June 30, 2018

Reconciliation of net income (loss) to net cash provided by operating activities	
Net income (loss)	\$ 816,934
Adjustments to reconcile net income (loss) to net cash provided by operating activities	
Depreciation	430,892
Amortization of debt issuance costs	16,346
Bad debts	35,244
Changes in asset and liability accounts	
(Increase) decrease in assets	
Tenant accounts receivable	(26,401)
Accounts receivable - other	3,483
Prepaid expenses	323
Tenant security deposits funded	(3,208)
Increase (decrease) in liabilities	
Accounts payable	(23,402)
Accrued liabilities	12,666
Accrued interest payable	(877)
Tenant security deposits held in trust	3,206
Prepaid revenue	487
Entity/construction liability accounts (include detail)	
Accounts payable - entity	(72,812)
Total adjustments	375,947
Net cash provided by operating activities	\$ 1,192,881
Significant noncash investing and financing activities	
Contributions as reduction in accounts payable - entity	\$ 2,621,194

Central SDHC FHA LLC
HUD Project No.: 129-11054

Notes to Financial Statements
June 30, 2018

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, 2018, the allowance for doubtful accounts is \$1,943.

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 to 37 years
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Impairment of long-lived assets

The Company reviews its investment in rental property for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the property are less than its carrying amount, management compares the carrying amount of the property to its fair value in order to determine whether an impairment loss has occurred. The amount of the

Central SDHC FHA LLC
HUD Project No.: 129-11054

Notes to Financial Statements
June 30, 2018

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, 2018.

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 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 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.

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, 2018, the balance in the escrow deposits is \$49,019.

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, 2018, the balance in the reserve for replacements is \$600,311.

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

Central SDHC FHA LLC
HUD Project No.: 129-11054

Notes to Financial Statements
June 30, 2018

are paid in monthly installments of \$66,369 through maturity on October 1, 2045. As of June 30, 2018, the outstanding principal and accrued interest is \$13,761,807 and \$41,859, respectively.

Debt issuance costs, net of accumulated amortization, totaled \$326,186 as of June 30, 2018, and are related to the first mortgage. Debt issuance costs on the above note are being amortized using an imputed rate of 3.97%. Amortization of debt issuance costs is \$16,346 for the year ended June 30, 2018 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.

Aggregate annual maturities of the mortgage payable over each of the next five years and thereafter subsequent to June 30, 2018 are as follows:

2019	\$	299,088
2020		310,189
2021		321,702
2022		333,643
2023		346,026
Thereafter		<u>12,151,159</u>
Subtotal		13,761,807
Less unamortized debt issuance cost		<u>(326,186)</u>
Total	\$	<u><u>13,435,621</u></u>

Note 5 - Management fee

The Company has entered into an agreement with SDHC in connection with the management of the rental operations of the Projects. The property management fee is based on 5% of the effective gross income of the Projects, as defined. For the year ended June 30, 2018, management fees of \$176,272 were incurred and charged to operations. As of June 30, 2018, management fees of \$15,278 remains payable.

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, 2018, the Company recognized housing assistance payments amounting to \$1,267,415.

Note 7 - Related party transactions

Accounts payable - entity on the balance sheet includes operating expenses of the Company which were paid by SDHC under an expense reimbursement agreement. As of June 30, 2018, \$95,528 is due.

Central SDHC FHA LLC
HUD Project No.: 129-11054

Notes to Financial Statements
June 30, 2018

Note 8 - 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, 2018.

Note 9 - 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 10 - 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 26, 2018 the date the financial statements were available to be issued, and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to financial statements.

Supplementary Information
Supporting Data Required by HUD

Central SDHC FHA LLC
HUD Project No.: 129-11054

Supplementary Information

Balance Sheet Data
June 30, 2018

		<u>Assets</u>	
<u>Account No.</u>			
Current assets			
1120	Cash - operations		\$ 709,850
1130	Tenant accounts receivable	\$ 13,087	
1131	Allowance for doubtful accounts	(1,943)	
1130N	Net tenants accounts receivable		11,144
1135	Accounts receivable - HUD		1,335
1200	Prepaid expenses		30,485
1100T	Total current assets		752,814
Deposits held in trust - funded			
1191	Tenant deposits		150,605
Restricted deposits and funded reserves			
1310	Escrow deposits	49,019	
1320	Reserve for replacements	600,311	
1300T	Total deposits		649,330
Rental property			
1410	Land	3,852,360	
1420	Buildings	8,442,306	
1490	Miscellaneous fixed assets	81,814	
1400T	Total fixed assets	12,376,480	
1495	Less accumulated depreciation	(2,144,647)	
1400N	Net fixed assets		10,231,833
1000T	Total assets		\$ 11,784,582

Central SDHC FHA LLC
HUD Project No.: 129-11054

Supplementary Information

Balance Sheet Data
June 30, 2018

		<u>Liabilities and Member's Equity (Deficit)</u>	
<u>Account No.</u>			
Current liabilities			
2110	Accounts payable - operations	\$	100,711
2113	Accounts payable - entity		95,528
2120	Accrued wages payable		10,432
2123	Accrued management fee payable		15,278
2131	Accrued interest payable - first mortgage		41,859
2170	Mortgage payable - first mortgage (short-term)		299,088
2210	Prepaid revenue		<u>30,477</u>
2122T	Total current liabilities		593,373
Deposits liability			
2191	Tenant deposits held in trust (contra)		150,602
Long-term liabilities			
2320	Mortgage payable - first mortgage	<u>\$ 13,136,533</u>	
2300T	Total long-term liabilities		<u>13,136,533</u>
2000T	Total liabilities		13,880,508
3130	Member's equity (deficit)		<u>(2,095,926)</u>
2033T	Total liabilities and member's equity (deficit)	\$	<u>11,784,582</u>

Central SDHC FHA LLC
HUD Project No.: 129-11054

Supplementary Information

Statement of Operations Data
Year Ended June 30, 2018

<u>Account No.</u>			
Rental revenue			
5120	Rent revenue - gross potential	\$ 2,348,382	
5121	Tenant assistance payments	<u>1,267,415</u>	
5100T	Total rental revenue		\$ 3,615,797
Vacancies			
5220	Apartments	(54,024)	
5250	Rental concessions	<u>(18,566)</u>	
5200T	Total vacancies		<u>(72,590)</u>
5152N	Net rental revenue		3,543,207
Financial revenue			
5410	Financial revenue - project operations	517	
5440	Revenue from investments - replacement reserve	<u>241</u>	
5400T	Total financial revenue		758
Other revenue			
5910	Laundry and vending	29,331	
5920	Tenant charges	<u>22,020</u>	
5900T	Total other revenue		<u>51,351</u>
5000T	Total revenue		<u>3,595,316</u>

Central SDHC FHA LLC
HUD Project No.: 129-11054

Supplementary Information

Statement of Operations Data
Year Ended June 30, 2018

<u>Account No.</u>			
Administrative expenses			
6250	Other renting expenses	15,409	
6310	Office salaries	125,667	
6311	Office expenses	19,356	
6320	Management fee	176,272	
6331	Administrative rent free unit	69,125	
6340	Legal expense - project	11,554	
6350	Auditing expense	12,800	
6370	Bad debts	35,244	
6390	Miscellaneous administrative expenses	3,336	
6263T	Total administrative expenses		468,763
Utilities expense			
6450	Electricity	22,741	
6451	Water	172,466	
6452	Gas	31,288	
6453	Sewer	125,893	
6400T	Total utilities expense		352,388
Operating and maintenance expenses			
6510	Payroll	103,524	
6515	Supplies	79,560	
6520	Contracts	541,014	
6525	Garbage and trash removal	36,244	
6530	Security payroll/contract	34,715	
6570	Vehicle and maintenance equipment operation and repairs	2,997	
6590	Miscellaneous operating and maintenance expenses	305	
6500T	Total operating and maintenance expenses		798,359

Central SDHC FHA LLC
HUD Project No.: 129-11054

Supplementary Information

Statement of Operations Data
Year Ended June 30, 2018

<u>Account No.</u>			
Taxes and insurance			
6710	Real estate taxes	1,236	
6720	Property and liability insurance	48,426	
6722	Workmen's compensation	8,467	
6723	Health insurance and other employee benefits	77,129	
6790	Miscellaneous taxes, licenses, permits and insurance	<u>6,800</u>	
6700T	Total taxes and insurance		142,058
Financial expenses			
6820	Interest on first mortgage payable	523,508	
6850	Mortgage insurance premium/service charge	<u>62,414</u>	
6800T	Total financial expenses		<u>585,922</u>
6000T	Total cost of operations before depreciation		<u>2,347,490</u>
5060T	Income (loss) before depreciation		<u>1,247,826</u>
Depreciation			
6600	Depreciation expense	<u>430,892</u>	
	Total depreciation		<u>430,892</u>
5060N	Operating income (loss)		<u>816,934</u>
	Total expenses		<u>2,778,382</u>
3250	Net income (loss)		<u><u>\$ 816,934</u></u>

Central SDHC FHA LLC
HUD Project No.: 129-11054

Supplementary Information

Statement of Operations Data
Year Ended June 30, 2018

<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>\$ 288,384</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>\$ 70,200</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>

Central SDHC FHA LLC
HUD Project No.: 129-11054

Supplementary Information

Statement of Member's Equity (Deficit) Data
Year Ended June 30, 2018

<u>Account No.</u>		
S1100-010	Member's equity (deficit), June 30, 2017	\$ (5,641,174)
S1200-420	Distributions	(980,505)
S1100-020		
S1100-030/040	Contributions	3,708,819
3250	Net income (loss)	<u>816,934</u>
3130	Member's equity (deficit), June 30, 2018	<u><u>\$ (2,095,926)</u></u>

Central SDHC FHA LLC
HUD Project No.: 129-11054

Supplementary Information

Statement of Cash Flows Data
Year Ended June 30, 2018

<u>Account No.</u>			
	Cash flows from operating activities		
S1200-010	Rental receipts	\$	3,451,651
S1200-020	Interest receipts		758
S1200-030	Other operating receipts		<u>51,351</u>
S1200-040	Total receipts		<u>3,503,760</u>
S1200-050	Administrative expenses paid		(50,351)
S1200-070	Management fees paid		(160,994)
S1200-090	Utilities paid		(338,325)
S1200-100	Salaries and wages paid		(266,518)
S1200-110	Operating and maintenance paid		(820,740)
S1200-120	Real estate taxes paid		(1,236)
S1200-140	Property insurance paid		(48,426)
S1200-150	Miscellaneous taxes and insurance paid		(6,800)
S1200-160	Net tenant security deposits received (paid)		(2)
S1200-170	Other operating expenses paid		(47,357)
S1200-180	Interest paid on first mortgage		(508,039)
S1200-210	Mortgage insurance premium paid		<u>(62,091)</u>
S1200-230	Total disbursements		<u>(2,310,879)</u>
S1200-240	Net cash provided by operating activities		<u>1,192,881</u>
	Cash flows from investing activities		
S1200-245	Net withdrawals from mortgage escrows		882
S1200-250	Net deposits to reserve for replacements		(70,441)
S1200-330	Net purchases of fixed assets		(219,617)
S1200-340	Other investing activities (include detail)		
S1200-341	Payment of construction costs included in accounts payable - operations	\$	(466,125)
S1200-341	Payment of construction costs included in accounts payable - project improvement		(402,742)
S1200-341	Payment of construction costs included in accounts payable - entity		<u>(409,182)</u>
			<u>(1,278,049)</u>
S1200-350	Net cash used in investing activities		<u>(1,567,225)</u>

Central SDHC FHA LLC
HUD Project No.: 129-11054

Supplementary Information

Statement of Cash Flows Data
Year Ended June 30, 2018

<u>Account No.</u>			
	Cash flows from financing activities		
S1200-360	Mortgage principal payments - first mortgage		(288,384)
S1200-420	Distributions to members		(980,505)
S1200-450	Other financing activities (include detail)		
S1200-451	Contributions from sole member	<u>1,087,625</u>	<u>1,087,625</u>
S1200-460	Net cash used in financing activities		<u>(181,264)</u>
S1200-470	Net decrease in cash		(555,608)
S1200-480	Cash, beginning		<u>1,265,458</u>
S1200T	Cash, end		<u><u>\$ 709,850</u></u>

Central SDHC FHA LLC
HUD Project No.: 129-11054

Supplementary Information

Statement of Cash Flows Data
Year Ended June 30, 2018

<u>Account No.</u>			
	Reconciliation of net income (loss) to net cash provided by operating activities		
3250	Net income (loss)	\$	816,934
	Adjustments to reconcile net income (loss) to net cash provided by operating activities		
6600	Depreciation		430,892
S1200-486	Amortization of debt issuance costs		16,346
	Changes in asset and liability accounts		
	(Increase) decrease in assets		
S1200-490	Tenant accounts receivable		(26,401)
S1200-500	Accounts receivable - other		3,483
S1200-520	Prepaid expenses		323
S1200-530	Tenant security deposits funded		(3,208)
	Increase (decrease) in liabilities		
S1200-540	Accounts payable		(23,402)
S1200-560	Accrued liabilities		12,666
S1200-570	Accrued interest payable		(877)
S1200-580	Tenant security deposits held in trust		3,206
S1200-590	Prepaid revenue		487
S1200-605	Entity/construction liability accounts (include detail)		
S1200-606	Accounts payable - entity	\$ (72,812)	
			(72,812)
S1200-600	Other adjustments (include detail)		
S1200-601	Bad debts	35,244	
			35,244
	Total adjustments		375,947
S1200-610	Net cash provided by operating activities	\$	1,192,881
S1200-620	Comments		
	Contributions as reduction in accounts payable - entity	\$	2,621,194

Central SDHC FHA LLC
HUD Project No.: 129-11054

Supplementary Information
Year Ended June 30, 2018

Reserve for Replacements

<u>Account No.</u>		
1320P	Balance at June 30, 2017	\$ 529,870
1320DT	Total monthly deposits	70,200
1320INT	Interest income	<u>241</u>
1320	Balance at June 30, 2018	<u><u>\$ 600,311</u></u>

Central SDHC FHA LLC
HUD Project No.: 129-11054

Supplementary Information
Period Ended December 31, 2017

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)	\$ 1,421,472
S1400-030	Accounts receivable - HUD	363
S1400-050	Total cash	1,421,835
S1400-060	Accrued mortgage interest payable	42,301
S1400-070	Delinquent mortgage principal payments	-
S1400-080	Delinquent deposits to reserve for replacements	-
S1400-090	Accounts payable (due within 30 days)	211,100
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)	8,552
S1400-130	Prepaid revenue (Account 2210)	27,537
S1400-140	Tenant security deposits liability (Account 2191)	151,839
S1400-180	Less total current obligations	441,329
S1400-190	Surplus cash (deficiency)	\$ 980,505

Central SDHC FHA LLC
HUD Project No.: 129-11054

Supplementary Information
Year Ended June 30, 2018

Computation of Surplus Cash

<u>Account No.</u>	<u>Part A - Compute Surplus Cash</u>	
S1300-010	Cash (Accounts 1120, 1170 and 1191)	\$ 860,455
1135	Accounts receivable - HUD	<u>1,335</u>
S1300-040	Total cash	<u>861,790</u>
S1300-050	Accrued mortgage interest payable	41,859
S1300-060	Delinquent mortgage principal payments	-
S1300-070	Delinquent deposits to reserve for replacements	-
S1300-075	Accounts payable (due within 30 days)	100,711
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)	25,710
2210	Prepaid revenue (Account 2210)	30,477
2191	Tenant security deposits liability (Account 2191)	150,602
S1300-110	Other current obligations (describe in detail)	
S1300-120	Accounts payable - entity	<u>\$ 95,528</u>
		<u>95,528</u>
S1300-140	Less total current obligations	<u>444,887</u>
S1300-150	Surplus cash (deficiency)	<u><u>\$ 416,903</u></u>

Central SDHC FHA LLC
HUD Project No.: 129-11054

Supplementary Information
Year Ended June 30, 2018

Changes in Fixed Asset Accounts

	Assets			Balance 06/30/18
	Balance 06/30/17	Additions	Deletions	
Land	\$ 3,852,360	\$ -	\$ -	\$ 3,852,360
Buildings	8,304,503	137,803	-	8,442,306
Miscellaneous fixed assets	-	81,814	-	81,814
	<u>\$ 12,156,863</u>	<u>\$ 219,617</u>	<u>\$ -</u>	<u>\$ 12,376,480</u>
Accumulated depreciation	<u>\$ 1,713,755</u>	<u>\$ 430,892</u>	<u>\$ -</u>	<u>\$ 2,144,647</u>
Total net book value				<u>\$ 10,231,833</u>

Fixed Asset Detail

Additions to Buildings Account

Item and quantity	Amount
Building improvements - project rehabilitation	<u>\$ 137,803</u>

Additions to Miscellaneous Fixed Assets Account

Item and quantity	Amount
Construction in process	<u>\$ 81,814</u>

Other Information

Related party transactions detail:

Account No.	Entity name	Amount paid
S3100-210	Management fee paid to SDHC	<u>\$ 160,994</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, 2018, 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 26, 2018.

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.

CohnReznick LLP

Sacramento, California
September 26, 2018

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, 2018. Central SDHC FHA LLC's major HUD program is Section 223(f) mortgage insurance program.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for 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, 2018.

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.



Sacramento, California
September 26, 2018

**Central SDHC FHA LLC
HUD Project No.: 129-11054**

**Schedule of Findings, Questioned Costs and Recommendations
June 30, 2018**

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, 2018**

1. Audit Report, dated September 28, 2017, for the year ended June 30, 2017, 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 February 2018, the HUD Real Estate Assessment Center issued a summary report following the physical inspection of the Projects. The inspection was completed and the Projects received a score of 79c. There were no other letters or reports issued by HUD management during the period covered by this audit.

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