

**Somerset Parkside Apartments
(Contract Number 80-RHC-007)
(Contract Number 15-LPR-005)
A Project of the Capitol Area Development Authority**

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

June 30, 2017 and 2016

**Somerset Parkside Apartments
(Contract Number 80-RHC-007)
(Contract Number 15-LPR-005)
A Project of the Capitol Area Development Authority**

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Independent Auditor's Report

Board of Directors
Capitol Area Development Authority
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Somerset Parkside Apartments (Contract Numbers 80-RHC-007 and 15-LPR-005) (the "Project"), a project of the Capitol Area Development Authority ("Authority"), which comprise the statements of net position as of June 30, 2017 and 2016, and the related statements of revenues, 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 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 the Somerset Parkside Apartments as of June 30, 2017 and 2016, 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 1, the financial statements 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 the Authority as of June 30, 2017 and 2016 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 15 to 22 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 December 7, 2017, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Sacramento, California
December 7, 2017

**Somerset Parkside Apartments
(Contract Number 80-RHC-007)
(Contract Number 15-LPR-005)
A Project of the Capitol Area Development Authority**

**Statements of Net Position
June 30, 2017 and 2016**

	<u>Assets</u>	
	<u>2017</u>	<u>2016</u>
Current assets		
Cash and cash equivalents	\$ 220,810	\$ 1,007
Residential accounts receivable, net	19,648	21,277
Due from HCD	-	30,494
Restricted cash - tenant security deposits	<u>9,758</u>	<u>10,483</u>
Total current assets	<u>250,216</u>	<u>63,261</u>
Noncurrent assets		
Restricted cash and cash equivalents - replacement reserve	59,441	19,272
Operating reserve	54,951	-
Capital assets		
Building and Improvements	1,696,323	1,508,931
Less accumulated depreciation	<u>(1,463,741)</u>	<u>(1,445,604)</u>
Total capital assets	<u>232,582</u>	<u>63,327</u>
Total noncurrent assets	<u>346,974</u>	<u>82,599</u>
Total assets	<u>\$ 597,190</u>	<u>\$ 145,860</u>
	<u>Liabilities</u>	
Current liabilities		
Accounts payable	\$ 4,276	\$ 4,271
Due to HCD	10,855	-
Unearned revenue - prepaid rent	6,212	1,250
Tenant security deposits	<u>9,758</u>	<u>10,483</u>
Total current liabilities	<u>31,101</u>	<u>16,004</u>
Noncurrent liabilities:		
Accrued interest	29,930	-
Note payable long term	<u>1,197,213</u>	<u>-</u>
Total noncurrent liabilities	<u>1,227,143</u>	<u>-</u>
Total liabilities	<u>\$ 1,258,244</u>	<u>\$ 16,004</u>
	<u>Net Position</u>	
Net investment in capital assets	\$ (964,631)	\$ 63,327
Restricted for replacements	59,441	19,272
Unrestricted	<u>244,136</u>	<u>47,257</u>
Total net position	<u>\$ (661,054)</u>	<u>\$ 129,856</u>

See Notes to Financial Statements.

Somerset Parkside Apartments
(Contract Number 80-RHC-007)
(Contract Number 15-LPR-005)
A Project of the Capitol Area Development Authority

Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2017 and 2016

	2017	2016
Operating revenues		
Rental revenue, net	\$ 171,973	\$ 148,524
HCD annuities	(13,124)	(17,896)
Coin-operated laundry	3,187	1,872
Miscellaneous	3,498	1,863
Total operating revenues	165,534	134,363
Operating expenses		
Payroll		
Salaries and benefits	39,348	37,351
Administrative		
Legal and accounting services	3,800	4,850
Management fee	17,470	16,970
Media	600	564
Total administrative	21,870	22,384
Utilities	33,932	34,424
Operating and maintenance		
Services and supplies	4,916	7,133
Courtesy patrol	3,360	3,210
Maintenance contract	10,263	7,277
Decorating and painting	3,820	7,805
Repairs and maintenance	6,650	32,563
Total operating and maintenance	29,009	57,988
Insurance and taxes		
Insurance	6,424	8,018
Property taxes	1,149	1,052
Total insurance and taxes	7,573	9,070
Depreciation	18,137	7,434
Total operating expenses	149,869	168,651
Operating income (loss)	15,665	(34,288)

**Somerset Parkside Apartments
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A Project of the Capitol Area Development Authority**

**Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2017 and 2016**

	2017	2016
Nonoperating revenues (expenses)		
CADA Annuity	419,000	110,805
Interest income	1,568	-
HCD loan funding obligation	(1,197,213)	-
Interest expense	(29,930)	-
Total nonoperating revenues, net	(806,575)	110,805
Change in net position	(790,910)	76,517
Net position, beginning	129,856	53,339
Net position, end	\$ (661,054)	\$ 129,856

**Somerset Parkside Apartments
(Contract Number 80-RHC-007)
(Contract Number 15-LPR-005)
A Project of the Capitol Area Development Authority**

**Statements of Cash Flows
Years Ended June 30, 2017 and 2016**

	2017	2016
Cash flows from operating activities		
Rental receipts	\$ 178,564	\$ 140,856
HCD annuity	28,225	-
Other receipts	6,685	3,735
Tenant security deposits received	1,575	11,225
Payroll and related costs	(39,348)	(37,351)
Administrative	(21,870)	(22,384)
Utilities	(33,932)	(34,424)
Operating and maintenance	(29,004)	(68,070)
Tenant security deposits paid	(2,300)	(8,055)
Insurance and taxes	(7,573)	(9,070)
	<u>81,022</u>	<u>(23,538)</u>
Net cash provided by (used in) operating activities		
Cash flows from noncapital financing activities		
CADA annuity	419,000	110,805
Short-term repayments to the Authority	-	(38,419)
	<u>419,000</u>	<u>72,386</u>
Net cash provided by noncapital financing activities		
Cash flows from capital and related financing activities		
Acquisition of capital assets	(187,392)	(55,900)
	<u>(187,392)</u>	<u>(55,900)</u>
Net cash used in capital and related financing activities		
Cash flows from investing activities		
Interest income	1,568	-
	<u>1,568</u>	<u>-</u>
Net cash provided by investing activities		
Net increase (decrease) in cash and cash equivalents	314,198	(7,052)
Cash and cash equivalents, beginning	30,762	37,814
	<u>30,762</u>	<u>37,814</u>
Cash and cash equivalents, end	<u>\$ 344,960</u>	<u>\$ 30,762</u>

**Somerset Parkside Apartments
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**Statements of Cash Flows
Years Ended June 30, 2017 and 2016**

	2017	2016
Reconciliation to the statements of net position		
Cash and cash equivalents	\$ 220,810	\$ 1,007
Restricted cash and cash equivalents		
Tenant security deposits	9,758	10,483
Replacement reserve	59,441	19,272
Operating reserve	54,951	-
	<u>\$ 344,960</u>	<u>\$ 30,762</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	\$ 15,665	\$ (34,288)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	18,137	7,434
Changes in assets and liabilities		
Residential accounts receivable	1,629	(8,010)
Receivable from HCD	30,494	20,426
Accounts payable	5	(10,082)
Unearned revenue - prepaid rent	4,962	342
Due to HCD	10,855	(2,530)
Tenant security deposits	(725)	3,170
	<u>\$ 81,022</u>	<u>\$ (23,538)</u>
Significant noncash capital and related financing activities		
Note payable - HCD Loan Portfolio Restructuring	<u>\$ 1,197,213</u>	<u>\$ -</u>

See Notes to Financial Statements.

**Somerset Parkside Apartments
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**Notes to Financial Statements
June 30, 2017 and 2016**

Note 1 - Organization and summary of significant accounting policies

General

Somerset Parkside Apartments ("Project") is a 26-unit apartment complex located in downtown Sacramento, California. It provides housing for eligible low-income families under the State of California Department of Housing and Community Development ("HCD") Rental Housing Construction Program ("RHCP"). This program provides long-term financing to construct the housing project and monthly annuities to fund operating deficits. Effective September 2016, the Authority and HCD terminated the old regulatory agreement (Contract No. 80-RHC-007) and entered into a 16-year term new regulatory agreement for the Project under the Loan Portfolio Restructuring Program (Contract No. 15-LPR-005).

Since April 8, 1982, the Capitol Area Development Authority ("Authority") manages the Project. The Authority is a joint powers agency with a Board of Directors comprised of appointees of the City of Sacramento ("City") and the State of California. The accompanying financial statements are not intended to present fairly the financial position or changes in financial position and cash flows of the Authority in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Basis of presentation

The Project is accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows occur. The Project distinguishes operating from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with the Project's ongoing operations. The principal operating revenue of the Project is rental income from tenants of its housing units. This revenue is recognized on the financial statements net of vacancy loss, low income subsidies, and loss to leases. Operating expenses for the Project include payroll expenses for employee services, administrative expenses, utilities expenses, operating and maintenance expenses, insurance and taxes expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Project's policy to use restricted resources first, then unrestricted resources as needed.

Cash, cash equivalents and restricted cash equivalents

The Project participates in the City's external investment pool. The City Treasurer pools cash and other City funds and invests to maximize income consistent with safe and prudent investment practices within the guidelines of the City's investment policy. The City, as a charter city, has adopted its own investment guidelines to guide investment of City funds by the Treasurer. These guidelines are consistent with the requirements of California Government Code Section 53601. The City Council provides regulatory oversight of the City's investment pool and reviews its investment policy on a quarterly basis. The estimated fair value of investments in the pool is based upon quoted market prices. However, the value of the pool shares in the City's investment pool that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the Project's position in the pool. The City's investment pool is unrated and the weighted average maturity is 1.38 years and 1.88 years at June 30, 2017 and June 30, 2016, respectively. At June 30, 2017 and 2016, the entire amount of the Project's cash and cash equivalents and restricted cash and cash equivalents are invested in the City's external investment pool. Detailed disclosures,

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**Notes to Financial Statements
June 30, 2017 and 2016**

including investment policies and associated risk policies, regarding the Project's cash and investments are included in the notes to the Authority's basic financial statements.

For purposes of the statements of cash flows, the Authority considers cash and cash equivalents to include all pooled cash and investments, including restricted account balances, as these pooled balances have the general characteristic of a demand deposit account. Restricted cash and cash equivalents includes replacement reserves and tenant security deposits.

Resident accounts receivable

Resident accounts receivable are due from tenants and reported net of an allowance for doubtful accounts. Management's estimate of the allowance is based on historical collection experience and a review of the current status of the receivables. It is reasonably possible that management's estimate of the allowance will change. As of June 30, 2017 and 2016, the allowance for doubtful accounts was \$20,375 and \$20,573, respectively.

Capital assets

Capital assets, which are defined by the Authority as assets with an initial, individual cost of more than \$3,000 and an estimated useful life beyond one year, are stated at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over an estimated useful life of between 5 to 30 years. Maintenance and repair costs are expensed as incurred. The Project does not own land, only the building on the land and therefore there are no nondepreciable capital assets disclosed.

Impairment of capital assets

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

Rental income

The Project's rental property is generally leased to tenants under one year non-cancelable operating leases. Rental income is recognized as rents become due. Rental payments received in advance are recorded as unearned revenue.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from these estimates.

Note 2 - Tenant security deposits

The Project collects security deposits from tenants at the inception of the tenant lease. These deposits, which are reported in the basic financial statements as restricted cash, are refundable to the tenants to the extent there are no unpaid rents or damages to the housing unit. Tenant security deposits held as of June 30, 2017 and 2016 amounted to \$9,758 and \$10,483, respectively.

**Somerset Parkside Apartments
(Contract Number 80-RHC-007)
(Contract Number 15-LPR-005)
A Project of the Capitol Area Development Authority**

**Notes to Financial Statements
June 30, 2017 and 2016**

Note 3 - Capital assets

Information on additions and disposals of capital assets as of June 30, 2017 and 2016 are as follows:

	<u>June 30, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2017</u>
Capital assets being depreciated				
Buildings and improvements	\$ 1,508,931	\$ 187,392	\$ -	\$ 1,696,323
Less accumulated depreciation for Buildings and improvements	<u>(1,445,604)</u>	<u>(18,137)</u>	<u>-</u>	<u>(1,463,741)</u>
Capital assets being depreciated, net	<u>\$ 63,327</u>	<u>\$ 169,255</u>	<u>\$ -</u>	<u>\$ 232,582</u>
	<u>June 30, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2016</u>
Capital assets being depreciated				
Buildings and improvements	\$ 1,453,031	\$ 55,900	\$ -	\$ 1,508,931
Less accumulated depreciation for Buildings and improvements	<u>(1,438,170)</u>	<u>(7,434)</u>	<u>-</u>	<u>(1,445,604)</u>
Capital assets being depreciated, net	<u>\$ 14,861</u>	<u>\$ 48,466</u>	<u>\$ -</u>	<u>\$ 63,327</u>

Note 4 - Replacement reserve

The replacement reserve reported in these financial statements as restricted cash and cash equivalents is funded monthly to provide for future major additions, repairs or replacements. The replacement reserve activity is as follows at June 30:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 19,272	\$ 30,501
Deposit for approved excess cash	2,530	-
Interest earned	367	329
Required deposits	37,272	6,400
Authorized expenses	<u>-</u>	<u>(17,958)</u>
Ending balance	<u>\$ 59,441</u>	<u>\$ 19,272</u>

Note 5 - Note payable

In September 2016, the Authority executed the new regulatory agreement with HCD and the Authority entered into a new promissory note in the amount of \$1,197,213 for a term of 16 years. The promissory note is secured by the Project property and bears interest at 3% per annum. No payment is required until maturity in September 2033 at which time all outstanding principal and accrued interest will be due. Payments are not to come from the Project cash flow and the Authority is to provide the funds necessary to pay off the loan at maturity. Upon closing on the loan, the Authority recorded the note payable and recognized a loan funding obligation expense which is

**Somerset Parkside Apartments
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**Notes to Financial Statements
June 30, 2017 and 2016**

included in nonoperating expenses in the statement of revenues, expenses, and changes in net position for the year ended June 30, 2017.

Note 6 - Program payments

As stated in Note 1, the HCD RHCP provides operating funds to the Project to cover the operating costs not covered by rental revenues. In the case the Project operates at a surplus, the net surplus is remitted to HCD or deposited to the replacement reserve subject to HCD approval.

On September 29, 2016, HCD approved the Project's operating budget with certain changes. In determining the qualifying operating costs, HCD disallows certain expenses reflected in these financial statements. Specific items disallowed include vacancy in excess of an approved percentage, interest income on the replacement reserve, depreciation expense, repairs paid out of replacement reserve and asset acquisitions exceeding the authorized budget. HCD also prorated the annual budget effective September 16, 2016 to reflect the starting date of the new regulatory agreement.

For the fiscal years ended June 30, 2017 and 2016, the Project had a net annuity expense of \$13,124 and \$17,896, respectively. Net unexpended program payments are reported as due from HCD on the Project's statements of net position. As of June 30, 2017 and 2016, HCD owes the Project annuities receivable of \$0 and \$30,494, respectively, and such amounts will either be paid in whole or in part by HCD, or with HCD approval applied against future annuities due to HCD. The activity in the account for the fiscal years ended June 30, are as follows:

	2017	2016
Due from HCD, beginning	\$ 30,494	\$ 50,920
Excess program payments for the current year	17,745	20,014
Excess program payment per audit	(28,225)	10,480
HCD corrections and adjustments	(20,014)	(50,920)
Due from HCD, end	\$ -	\$ 30,494

Under the terms of the new regulatory agreement, the Project is to pay HCD an annual monitoring fee of \$10,127 increasing annually based upon the consumer price index. The annual monitoring fee is subject to the Project generating sufficient cash flow. During the year ended June 30, 2017, the Project incurred annual monitoring fees of \$10,855 which are included in HCD annuities expense and all of which remain payable at June 30, 2017 and are included in due to HCD on the statement of net position.

Note 7 - Assistance from the Authority

The Authority has committed to provide funding to the Project to cover deficits and future capital improvement needs with additional annuities paid to the Project. During the years ended June 30, 2017 and 2016, the Authority made annuity contributions to the Project of \$419,000 and \$110,805, respectively.

**Somerset Parkside Apartments
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A Project of the Capitol Area Development Authority**

**Notes to Financial Statements
June 30, 2017 and 2016**

Note 8 - Leased property

The land on which the Project is located is owned by the State of California. On June 12, 1981, a 60-year operating lease was entered into between the Authority and the State of California. This lease is without cost, therefore, it is not reflected in these financial statements.

The State of California or the Authority may terminate the lease at any time by giving a 60 day notice. Should this lease be terminated, the developmental ground lease will be honored by the State of California on behalf of the Authority.

Note 9 - 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 the Project through December 7, 2017, the date the financial statements were available to be issued, and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to financial statements.

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

**Somerset Parkside Apartments
(Contract Number 80-RHC-007)
(Contract Number 15-LPR-005)
A Project of the Capitol Area Development Authority**

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

<u>Account No.</u>		
	Operating revenues	
5120	Rent revenue	\$ 155,497
5121	Tenant assistance payments	16,476
		<hr/>
	Rental revenue	171,973
		<hr/>
	HCD annuities	
	Excess program payments	(13,124)
		<hr/>
	Net HCD annuities	(13,124)
		<hr/>
	Other revenues	
5910	Coin-operated laundry	3,187
5190	Miscellaneous	3,498
		<hr/>
	Total other revenues	6,685
		<hr/>
	Total operating revenues	165,534
		<hr/>
	Operating expenses	
	Payroll	
6330	Manager salaries	20,490
6331	Manager rent fee unit	9,228
6510	Janitor payroll	9,630
		<hr/>
	Total payroll	39,348
		<hr/>
6350	Accounting services	3,800
6320	Management fee	17,470
6210	Media	600
		<hr/>
	Total administrative	21,870
		<hr/>
	Utilities	
6450	Electricity	2,830
6452	Gas	1,166
6453	Water/Sewer	27,563
6525	Garbage	2,373
		<hr/>
	Total utilities	33,932
		<hr/>

**Somerset Parkside Apartments
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**Supplementary Information
Year Ended June 30, 2017**

<u>Account No.</u>		
	Operating and maintenance	
6515	Services and supplies	4,916
6530	Courtesy patrol	3,360
6517	Janitor and cleaning contracts	10,263
6560	Decorating and painting	3,820
6590	Misc. Ops. And Maint. Expense	6,650
		<hr/>
	Total operating and maintenance	29,009
		<hr/>
	Insurance and taxes	
6729	Insurance	6,424
6710	Property taxes	1,149
		<hr/>
	Total insurance and taxes	7,573
		<hr/>
	Depreciation	18,137
		<hr/>
	Total operating expenses	149,869
		<hr/>
	Operating income	15,665
		<hr/>
	Non-operating revenues	
5990	CADA Annuity	419,000
5410	Interest income	1,568
5415	HCD loan funding obligation	(1,197,213)
5420	Interest expense	(29,930)
		<hr/>
	Change in net position	\$ (790,910)
		<hr/> <hr/>
	Reconciliation to Form 180	
	Total operating revenues	\$ 165,534
	Interest income	1,568
	Less interest income for equipment reserve	(367)
	Less annuities and excess program payments	13,124
	Less difference for allocation calculation	(2)
		<hr/>
	Effective gross rent from form 180	\$ 179,857
		<hr/> <hr/>
	Total expenses	\$ 149,869
	Less depreciation	(18,137)
	Less difference for allocation calculation	(1)
		<hr/>
	Total operating cost from form 180	\$ 131,731
		<hr/> <hr/>

**Somerset Parkside Apartments
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A Project of the Capitol Area Development Authority**

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

Insurance

Insurance premiums are current as of June 30, 2017. The annual renewal policy was paid before the due date.

Project Name: Somerset Parkside

Contract #: 15-LPR-0005

Sponsor's Name: Capitol Area Development Authority

Project Fiscal Year: 2016-17

The sponsor must send one copy of this *Annual Report Sponsor Certification* along with the annual *Audited Financial Statements* to the Department of Housing and Community Development within ninety (90) days (or within the period of time specified in the Regulatory Agreement, if different) after the end of the project fiscal year. The *Annual Report Sponsor Certification* must have original signatures. Please note that if additional information is required for a specific program's *annual reporting requirement*, that information must accompany the *Annual Audited Financial Statements* as a separate attachment. The *Annual Report* includes the *Sponsor Certification*, the *Audited Financial Statements* and all other annual reporting documents.

Sponsor Certification

It is hereby certified that all of the representations made by the sponsor in the Regulatory Agreement and the financial disclosures contained in the *Annual Report* are true and correct, and that there is not any condition, event, or act which would constitute an event of default there under, or which with notice, passage of time, or both, would constitute such an event of default.



Authorized Signature

Diana Rutley

Printed Name

Property Manager

Title

12/1/2017

Date

Explanation of other Withdrawals:

ADDITIONAL REQUESTED INFORMATION FOR FY:

2016-17

ITEM	YES	NO	DATES PAID AND COMMENTS
1. Operating Reserves: Funded monthly? If not, how often?			Not Applicable
2. Replacement Reserves: Funded monthly? If not, how often?	X		
3. Security Deposit Acct. : Bal. equal to/greater than security deposit liability plus interest? Explain if "No".			Not Applicable
4. Taxes: Paid current, on time & no late fees incurred?	X		
5. Insurance: Is coverage according to Regulatory Agreement?	X		
6. Insurance: Paid current and the renewal policy paid on time?	X		
7. Required Debt Service: Paid current & always paid by due date?			Not Applicable
8. Debt: Has additional indebtedness been incurred? (If "YES", explain what, when and with whom.)		X	
9. Other Reserve Account?: Name other reserve accounts, how funded, who controls them and their purpose.			Not Applicable
10. Account Insurance: Are all accounts insured by Federal Gov't?	X		

Rental Housing Construction Program -- Original

7. REPORT OF ACTUAL OPERATING COSTS

Reporting Period: 7/1/2016 to 06/30/2017

Contract No: 80-RHC-007
 Project Name: Somerset Parkside
 Prepared by:
 Date Prepared:

Units/Sq. Ft. - Assisted: 18
 Units/Sq. Ft. - Total: 26
 Unit Months: 312

ACCOUNT NAME	ACCOUNT CODES	UNIT EXPENSES						PROJECT TOTALS		
		Approved Assisted (A)	Actual Assisted	Approved Non-Assisted	Actual Non-Assisted	Proposed Commercial	Actual Commercial	Approved Total Expenses	Total Actual Expenses (B)	Project Variance (C)
MANAGEMENT FEE: 6200/6300										
1 Management Fee or Sponsor Overhead	6320	12,094	11,356	5,376	6,115	0	0	17,470	17,471	(1)
ADMINISTRATIVE EXPENSES: 6200/6300										
2 Advertising	6210	415	390	185	210	0	0	600	600	0
3 Apartment Resale Expense (Cooperatives)	6235	0	0	0	0	0	0	0	0	0
4 Other Renting Expenses	6250	69	0	31	0	0	0	100	0	100
5 Office Salaries	6310	0	0	0	0	0	0	0	0	0
6 Office Supplies	6311	0	0	0	0	0	0	0	0	0
7 Office or Model Apartment Rent	6312	0	0	0	0	0	0	0	0	0
8 Manager and Superintendent Salaries	6330	14,185	13,319	6,305	7,171	0	0	20,490	20,490	0
9 Manager's or Superintendent's Rent Free Unit	6331	0	0	9,228	9,228	0	0	9,228	9,228	0
10 Legal Expense - Project	6340	692	0	308	0	0	0	1,000	0	1,000
11 Audit Expense - Project	6350	3,531	2,470	1,569	1,330	0	0	5,100	3,800	1,300
12 Bookkeeping Fees/Accounting Services	6351	0	0	0	0	0	0	0	0	0
13 Telephone and Answering Service Expenses	6360	0	0	0	0	0	0	0	0	0
14 Bad Debt Expense	6370	0	0	0	0	0	0	0	0	0
15 Miscellaneous Administrative Expenses (specify)	6390	0	0	0	0	0	0	0	0	0
16 TOTAL ADMINISTRATIVE EXPENSES	6200/6300T	18,893	16,179	17,625	17,939	0	0	36,518	34,118	2,400
UTILITIES EXPENSES: 6400										
17 Fuel Oil/Coal	6420	0	0	0	0	0	0	0	0	0
18 Electricity	6450	2,769	1,840	1,231	991	0	0	4,000	2,831	1,169
19 Water	6451	0	0	0	0	0	0	0	0	0
20 Gas	6452	831	758	369	408	0	0	1,200	1,166	34
21 Sewer	6453	22,084	17,916	9,816	9,647	0	0	31,900	27,563	4,337
22 TOTAL UTILITIES EXPENSES	6400T	25,684	20,514	11,416	11,046	0	0	37,100	31,560	5,540
OPERATING AND MAINTENANCE EXPENSES: 6500										
23 Janitor and Cleaning Payroll	6510	5,348	6,260	2,377	3,370	0	0	7,725	9,630	(1,905)
24 Janitor and Cleaning Supplies	6515	2,146	3,195	954	1,721	0	0	3,100	4,916	(1,816)
25 Janitor and Cleaning Contracts	6517	8,308	5,793	3,692	3,119	0	0	12,000	8,912	3,088
26 Exterminating Payroll/Contract	6519	0	0	0	0	0	0	0	0	0
27 Exterminating Supplies	6520	0	0	0	0	0	0	0	0	0
28 Garbage and Trash Removal	6525	2,423	1,542	1,077	831	0	0	3,500	2,373	1,127
29 Security Payroll/Contract	6530	2,326	2,184	1,034	1,176	0	0	3,360	3,360	0
30 Grounds Payroll	6535	0	0	0	0	0	0	0	0	0
31 Grounds Supplies	6536	0	0	0	0	0	0	0	0	0
32 Grounds Contract	6537	935	877	415	472	0	0	1,350	1,349	1
33 Repairs Payroll	6540	0	0	0	0	0	0	0	0	0
34 Repairs Material	6541	4,915	2,593	2,185	1,396	0	0	7,100	3,989	3,111
35 Repairs Contract	6542	0	0	0	0	0	0	0	0	0
36 Elevator Maintenance/Contract	6545	0	0	0	0	0	0	0	0	0
37 Heating/Cooling Repairs and Maintenance	6546	0	0	0	0	0	0	0	0	0
38 Swimming Pool Maintenance/Contract	6547	0	0	0	0	0	0	0	0	0
39 Snow Removal	6548	0	0	0	0	0	0	0	0	0
40 Decorating/Payroll Contract	6560	3,808	2,483	1,692	1,337	0	0	5,500	3,820	1,680
41 Decorating Supplies	6561	0	0	0	0	0	0	0	0	0
42 Vehicle and Maint. Equipment Operation/Repairs	6570	0	0	0	0	0	0	0	0	0
43 Misc. Operating and Maintenance Expenses (specify)	6590	1,869	1,729	831	931	0	0	2,700	2,660	40
44 TOTAL OPERATING & MAINTENANCE EXPENSES	6500T	32,078	26,656	14,257	14,353	0	0	46,335	41,009	5,326
TAXES AND INSURANCE: 6700										
45 Real Estate Taxes	6710	796	747	354	402	0	0	1,150	1,149	1
46 Payroll Taxes (Project's Share)	6711	0	0	0	0	0	0	0	0	0
47 Misc. Taxes, Licenses and Permits	6719	0	0	0	0	0	0	0	0	0
48 Property and Liability Insurance (Hazard)	6720	0	0	0	0	0	0	0	0	0
49 Fidelity Bond Insurance	6721	0	0	0	0	0	0	0	0	0
50 Worker's Compensation	6722	0	0	0	0	0	0	0	0	0
51 Health Insurance and Other Employee Benefits	6723	0	0	0	0	0	0	0	0	0
52 Other Insurance	6729	6,923	4,176	3,077	2,248	0	0	10,000	6,424	3,576
53 TOTAL TAXES AND INSURANCE	6700T	7,719	4,923	3,431	2,650	0	0	11,150	7,573	3,577
ASSISTED LIVING/BOARD & CARE EXPENSES: 6900										
54 Food	6932	0	0	0	0	0	0	0	0	0
55 Recreation and Rehabilitation	6980	0	0	0	0	0	0	0	0	0
56 Rehabilitation Salaries	6983	0	0	0	0	0	0	0	0	0
57 Other Service Expenses	6990	0	0	0	0	0	0	0	0	0
58 TOTAL ASSISTED LIVING EXPENSES	6900T	0	0	0	0	0	0	0	0	0
61 TOTAL OPERATING COSTS		96,469	79,628	52,104	52,103	0	0	148,573	131,731	16,842

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

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

Contract No: **80-RHC-007**
 Project Name: **Somerset Parkside**
 Prepared by:
 Date Prepared:

Units/Sq. Ft. - Assisted: **18**
 Units/Sq. Ft. - Total: **26**
 Unit Months: **312**

ACCOUNT NAME	Account Codes	ASSISTED UNITS		NON-ASSISTED UNITS		COMMERCIAL		TOTAL PROJECT		PROJECT VARIANCE
		Approved Cashflow (A)	Actual Cashflow (B)	Approved Cashflow (C)	Actual Cashflow (D)	Proposed Cashflow (E)	Actual Cashflow (F)	Approved Cashflow (G)	Actual Cashflow (H)	Cashflow Variance (I)
REVENUE ACCOUNTS/RENT REVENUE: 5100										
1 Rent Revenue	5120	90,324	101,073	83,352	54,424	0	0	173,676	155,497	(18,179)
2 Tenant Assistance Payments	5121	16,476	0	0	16,476	0	0	16,476	16,476	0
3 Rent revenue - Stores and Commercial	5140	0	0	0	0	0	0	0	0	0
4 Garage and Parking Spaces	5170	0	0	0	0	0	0	0	0	0
5 Flexible Subsidy Revenue	5185	0	0	0	0	0	0	0	0	0
6 Miscellaneous Rent Revenue	5190	346	2,273	154	1,224	0	0	500	3,497	2,997
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	107,146	103,346	83,506	72,124	0	0	190,652	175,470	(15,182)
<i>Total Vacancies (HCD Use Only)</i>		5200T	2,710	0	2,501	0	0	5,210	0	0
ASSISTED LIVING/BOARD & CARE REVENUES: 5300										
17 Food	5332	0	0	0	0	0	0	0	0	0
18 Recreation (Activities) and Rehabilitation	5380	0	0	0	0	0	0	0	0	0
19 Rehabilitation	5385	0	0	0	0	0	0	0	0	0
20 Other Service Revenue	5390	0	0	0	0	0	0	0	0	0
<i>Total Living Revenue</i>	6300T	0	0	0	0	0	0	0	0	0
FINANCIAL REVENUE: 5400										
21 Financial Revenue - Project Operations	5410	156	781	69	420	0	0	225	1,201	976
<i>Total Financial Revenue</i>	5400T	156	781	69	420	0	0	225	1,201	976
OTHER REVENUE: 5900										
22 Laundry and Vending Revenue	5910	2,257	2,071	1,003	1,115	0	0	3,260	3,186	(74)
23 NSF and Late Charges	5920	0	0	0	0	0	0	0	0	0
24 Damages and Cleaning Fees	5930	0	0	0	0	0	0	0	0	0
25 Forfeited Tenant Security Deposits	5940	0	0	0	0	0	0	0	0	0
26 Other Revenue	5990	0	0	0	0	0	0	0	0	0
<i>Total Other Revenue</i>	5900T	2,257	2,071	1,003	1,115	0	0	3,260	3,186	(74)
27 EFFECTIVE GROSS RENT (EGR)	5152T	106,849	106,198	82,077	73,659	0	0	188,927	179,857	(9,070)
28 TOTAL OPERATING EXPENSES	6000T	99,363	79,628	53,668	52,103	0	0	153,030	131,731	21,299
29 NET OPERATING INCOME (NOI)	5000T	7,487	26,570	28,410	21,556	0	0	35,897	48,126	12,229
FINANCIAL EXPENSES: 6800										
30 Non-Contingent Debt Service (specify lender)	6895	0	0	0	0	0	0	0	0	0
1st Mortgage =		0	0	0	0	0	0	0	0	0
2nd Mortgage =		0	0	0	0	0	0	0	0	0
3rd Mortgage =		0	0	0	0	0	0	0	0	0
31 HCD Required Payments	6890	0	0	10,127	0	0	0	10,127	0	10,127
32 Lease Payment	6890	0	0	0	0	0	0	0	0	0
33 Miscellaneous Financial Expenses	6890	0	0	0	0	0	0	0	0	0
<i>Total Financial Expenses</i>	6800T	0	0	10,127	0	0	0	10,127	0	10,127
FUNDED RESERVES:										
34 Escrow Deposits	1310	0	0	0	0	0	0	0	0	0
35 Replacement Reserve-Deposit	1320	29,976	24,226	13,323	13,045	0	0	43,299	37,271	6,028
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
<i>Total Reserve Deposits</i>		29,976	24,226	13,323	13,045	0	0	43,299	37,271	6,028
38 PROJECT CASH FLOW (CF)		(22,489)	2,344	4,960	8,511	0	0	(17,529)	10,855	28,384
ADDITIONAL REVENUE:										
39 RHCP-O Annuity Fund Request (For Assisted Units Only)		17,745	0	0	0	0	0	17,745	0	(17,745)
40 Withdrawal from Operating Reserves		0	0	0	0	0	0	0	0	0
41 Borrower Contribution		0	0	0	0	0	0	0	0	0
42 Other (specify)		0	0	0	0	0	0	0	0	0
<i>Total Additional Revenue</i>		17,745	0	0	0	0	0	17,745	0	(17,745)
USE OF CASH FLOW:										
43 HCD Interest Payments		0	0	0	0	0	0	0	0	0
44 Asset Mgmt Fee (CHRP-R/SUHRP & HOME-pre-UMR Only)		0	0	0	0	0	0	0	0	0
45 Asset Mgmt Fee/Prtshp Costs (MHP/HOME under UMR)		0	0	0	0	0	0	0	0	0
46 Borrower Distributions		0	0	0	0	0	0	0	0	0
47 Residual Receipt Loan Payments		0	0	0	0	0	0	0	0	0
48 Other (specify)		0	0	0	0	0	0	0	0	0
<i>Total Use of Cash Flow</i>		0	0	0	0	0	0	0	0	0

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

Board of Directors
Capitol Area Development Authority
Sacramento, California

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 Somerset Parkside Apartments (Contract Numbers 80-RHC-007 and 15-LPR-005) ("Project"), a project of the Capitol Area Development Authority ("Authority") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Project's basic financial statements, and have issued our report thereon dated December 7, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 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 the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CohnReznick LLP

Sacramento, California
December 7, 2017

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