

# Audited Financial Statements Handbook for Multifamily Rental Housing

**CALIFORNIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT  
AND  
CALIFORNIA HOUSING FINANCE AGENCY**

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# Foreword

Audited financial statements are one of the primary tools used by both the California Department of Housing and Community Development (HCD) and the California Housing Finance Agency (CalHFA) to meet their fiduciary responsibilities in overseeing housing programs, bond requirements, and assuring the integrity of their respective multifamily housing portfolios. The areas of noncompliance and internal control weaknesses noted in these statements will be addressed by the respective HCD or CalHFA Asset Management staff as appropriate.

This Audited Financial Statements Handbook for Multifamily Rental Housing (Audit Handbook) is the result of a joint effort by HCD and CalHFA to coordinate their audit requirements. The Audit Handbook has been managed and developed by George Rodine (HCD) and the Asset Management Team at CalHFA since its initial publication in 2013. The Audit Handbook and submission requirements detailed herein are for HCD and CalHFA purposes only and the Independent Certified Public Accountant (auditor) must be aware of and file appropriate audit submissions as may be required by other governmental agencies, investors, etc. in their formats. Audits are required to be submitted to both HCD and CalHFA for jointly funded projects and to the respective department for individually funded projects.

The Audit Handbook is neither intended to be a complete manual of procedures, nor is it intended to supplant the auditor's judgment of audit work required. Suggested formats contained herein may not cover all circumstances or conditions encountered in an audit. The auditor must use professional judgment to add supplementary information and to determine the extent of testing necessary to support the opinion in the financial statements. All applicable compliance requirements in this Audit Handbook must be addressed by the auditor.

The auditor may contact the respective HCD or CalHFA asset management staff if technical assistance is needed pertaining to HCD or CalHFA programs, regulations, or operations.

HCD and CalHFA staff continue to be receptive to suggestions and appreciate the help provided by the accounting profession.

The Audit Handbook is posted at HCD's and CalHFA's respective websites at:

- [www.hcd.ca.gov](http://www.hcd.ca.gov)
- [www.calhfa.ca.gov/multifamily/asset/forms/index.htm](http://www.calhfa.ca.gov/multifamily/asset/forms/index.htm)

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# Introduction

## Regulatory Agreement

Each owner participating in various HCD or CalHFA programs is required to sign an HCD or CalHFA Regulatory Agreement(s) or in some instances an FHA Regulatory Agreement with CalHFA amendments, addendums, or modifications, as well as other documents relating to the financing and affordability of the project. The contents of the agreements from one project to another may vary due to statutory and regulatory changes, specific HCD or CalHFA program requirements, and/or special project conditions or requirements. The auditor must obtain a copy of the applicable HCD or CalHFA Regulatory Agreement(s) and other agreements including, but not limited to, the Capitalized Operating Subsidy Reserve Agreement (COSRA), promissory note, deed of trust, and other relevant regulatory information. Once obtained, the auditor must review the terms and conditions, and document findings of material non-compliance in the accompanying information of the audited financial statements. Financing arrangements may involve another agency's requirements that interact with HCD or CalHFA. Instances of non-compliant financing arrangements must be disclosed in the audit.

## Programs

### HCD programs covered under this Audit Handbook:

- Affordable Housing and Sustainable Communities (AHSC) Program
- California Housing Accelerator (ACC)
- California Housing Rehabilitation Program - Rental Component (CHRP-R)
- California Natural Disaster Assistance Program - Rental Component (CALDAP-R)
- Deferred Payment Rehabilitation Loan Program (DPRLP) - Rental
- Families Moving to Work Program (FMTW)
- Family Housing Demonstration Program (FHDP)
- HOME Investment Partnership Program (HOME) – CHDO
- Housing for a Healthy California (HHC) – *Bifurcated audit required if COSR funding*
- Housing Loan Conversion Program (HLCP) – *Bifurcated audit required*
- Joe Serna, Jr. Farmworker Housing Grant Program (FWHG)
- Loan Portfolio Restructuring Program (LPR)

## Introduction

- Mobilehome Park Resident Ownership Program (MPROP), Mobilehome Park Rehabilitation and Resident Ownership Program (MPRRP), and Manufactured Housing Opportunity & Revitalization Program (MORE)
- Multifamily Housing Program (MHP)
- Multifamily Housing Program – Downtown Rebound Program (DRP)
- Multifamily Housing Program – Governor’s Homeless Initiative (GHI)
- Multifamily Housing Program – Homeless Youth (HYMHP)
- Multifamily Housing Program – Supportive Housing (SHMHP)
- National Housing Trust Fund (NHTF)
- Neighborhood Stabilization Program (NSP); if requested by HCD
- No Place Like Home (NPLH) – *Bifurcated audit required if COSR funding*
- Portfolio Reinvestment Program (PRP) – *Bifurcated audit required*
- Rental Housing Construction Program – Bond Component (RHCP-Bond)
- Rental Housing Construction Program (RHCP-Original) – *Bifurcated audit required*
- Special User Housing Rehabilitation Program (SUHRP)
- State Earthquake Rehabilitation Assistance Program (SERA)
- Transit Oriented Development Housing Program (TOD)
- Veteran Housing and Homeless Prevention Program (VHHP)
- New or Restructured Programs/Projects that require project audits

### **CalHFA programs covered under this Audit Handbook:**

- Permanent Loans with or without Special Needs
- Section 8 projects with CalHFA as Housing Assistance Payment (HAP) contract administration
- Section 8 projects with a CalHFA loan with Performance-Based Contract Administrator (PBCA) or Public Housing Authority (PHA) as HAP contract administration
- Rental Housing Construction Program (RHCP)
- Mental Health Services Act Housing Program (MHSA) – *Bifurcated audit required if COSR funding*
- Special Needs Housing Program (SNHP) – *Bifurcated audit required if COSR funding*
- Mixed Income Program (MIP)

# Owner's Responsibilities

## Accounting Records

The owner must provide HCD or CalHFA, as applicable, with required reports, financial statements, projections, and analyses. Records must be maintained at all times in reasonable condition to allow for a proper audit. The books and records must be posted on a regular basis and consist of appropriate journal entries to a general ledger necessary to reflect project financial condition without substantial corrections or adjustments.

## Audited Financial Statements

HCD and CalHFA require the owner to submit a signed electronic copy of the audited financial statements within 90 days of the project's fiscal year ending date. The submitted copy must include a signed certification by the owner regarding the completeness and accuracy of the financial statements and a signed certification by the management agent, if applicable, regarding the management of the project. The Financial Statements including the notes and supplementary information are to be audited in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (Yellow Book) in addition to Generally Accepted Auditing Standards (GAAS) developed by the Auditing Standards Board of the American Institute of Certified Public Accountants. Applicable Government auditing standards include the General Standards, and the Field Work and Reporting Standards for Financial Audits. The Financial Statements are also to be audited and presented in accordance with the requirements of this Audit Handbook.

The Financial Statements must include supplementary information and reports which HCD or CalHFA requires for general analysis of operations and for assurance of compliance with the applicable HCD or CalHFA Regulatory Agreement(s), HUD 4350.5, HUD OIG 2000.04, and Office of Management and Budget (OMB) Uniform Guidance (formerly known as Circular A-133), as applicable.

**The audit must include the supplementary information as described in the Notes to the Financial Statements and the Supplementary Information in this Audit Handbook.**

## Owner's Responsibilities

Two separate sample audits are provided along with an addendum sample (Appendix C):

**Appendix A** is for all projects that have HCD and/or CalHFA funding, but do not have either CalHFA-administered HUD Section 8 or HUD Section 8 with a requirement to submit Audits to HUD/REAC as part of the Financial Assessment SubSystem.

Projects that have only HCD funding and also have either CalHFA-administered HUD Section 8 or HUD Section 8 with a requirement to submit Audits to HUD/REAC as part of the Financial Assessment SubSystem, must submit Appendix A plus the CalHFA Surplus Cash Computation (see page B 26).

**Appendix B** must be used for projects with no HCD funding and either, CalHFA administered HUD Section 8 or HUD Section 8 with a requirement to submit Audits to HUD/REAC as part of the Financial Assessment SubSystem.

**Appendix C** must be used when a project has COSR funding from CalHFA or HCD, which requires submittal of a Bifurcated Audit. This includes funding from programs such as CalHFA's MSHA and SHNP as well as HCD's HHC, NPLH, and PRP. Appendix C must also be used when a project is eligible for annuity funding from HCD's RHCP-Original or HLCP.

**NOTE: All the Appendix C schedules (see pages C 1 to C 10) must be included and replace the equivalent Appendix A schedules (see pages A 22 to A 26, and A 29).**

From the accounting records, an opinion must be provided regarding: the financial statements including the notes and supplementary information (in all material respects); the financial position; and the results of the operations and cash flows for the years then ended. The opinion must state if the financial statements are prepared in conformity with accounting principles generally accepted in the United States of America.

Although the auditor expresses an opinion on the financial statements, the statements themselves are the owner's responsibility. It is also the owner's responsibility to maintain adequate books and records and examine the audit prior to sending to HCD and/or CalHFA.

The cost of operations of the project includes the expenses incurred in maintaining the accounting records. Although the owner may engage an auditor to perform services outside the audit, the owner or the owner's representative must perform the management functions and make management decisions. The owner must certify to the completeness and accuracy of the financial statements (see pages A 31 and B 29). The management agent, if applicable, must certify to the owner regarding the completeness and accuracy of the financial statements (see pages A 30 and B 28).

## Owner's Responsibilities

### Delegation of Responsibility to Agent

The owner may delegate the responsibility for the maintenance of the project accounting records to the management agent (the owner must still certify to the completeness and accuracy of the financial statements and sign the audit documents submitted to HCD and CalHFA). Under these circumstances, the management agent must fulfill these responsibilities as required by the Regulatory Agreement(s). Additional audit fees resulting from the failure to maintain accounting records in accordance with HCD or CalHFA requirements may not be charged to the project. The management agent may be required to provide, at their own expense, additional accounting services to have these records put in an auditable condition.

The responsibility for obtaining the audit and engaging the services of an auditor may not be delegated. Although the management agent may provide the names of auditors who may be interested in the professional engagement, the actual contractual relationship must be between the owner and the auditor.

### The First Audit

The first audit is required within 90 days after the end of the fiscal year of the permanent loan closing. For construction loans, the first audit may be due 90 days after the end of the fiscal year of the project's first year of operations. In addition, if the project was in operation during a prior year, the audit for the prior year may also be required. Consult with your asset management representative.

If the permanent loan closing date was less than six months prior to the end of the fiscal year, the first audit may either include only those few months of operations or may include those months along with the first full year of operations after permanent loan closing. The audit must not exceed 18 months of operations. Thus, if the permanent loan closing date is August 1, the owner who maintains accounting records on a calendar year basis would have the audit performed either as of the partial operating year of five months or as of the end of the next fiscal year covering 17 months.

### Separate Financial Statements

Where the entity that owns the project has other programs and projects, including other HCD/CalHFA-funded projects, the separate operations of the HCD or CalHFA financed project are required to be shown and submitted as a separate financial statement, including the project specific Notes to the Financial Statements and the Supplementary Information.



## Owner's Responsibilities

An organization may obtain an organization-wide audit for its own purposes but is required to prepare the required Supplementary Information for each HCD or CalHFA financed project. When this type of organization-wide Audit is performed and separate HCD/CalHFA project financial statements are submitted, auditors should submit the Auditor Report following the example in Appendix D. When a complete entity audit is not performed and HCD/CalHFA financial statements are prepared as standalone financial statements, auditors should submit the Auditor Report following the example in Appendix E.

## Distributions and Residual Receipts

HCD or CalHFA review of audited financial statements may result in authorization to make cash distributions and/or Residual Receipts payments. The Owner must remain cognizant of these and other regulatory or contractual requirements.

## Engagement of the Auditor

The owner must engage the services of an auditor, satisfactory to HCD or CalHFA, well in advance of the end of the project fiscal year. Although prior experience in performing HCD, CalHFA, or similar type audits is advantageous, any independent accountant licensed in California may be selected to perform the audit. The owner must select an auditor that is qualified to perform and complete the audit in a professional and timely manner. Failure to perform the Audit in accordance with HCD or CalHFA requirements may result in additional expense to the owner.

HCD and CalHFA reserve the authority to require an owner to change auditors if continuous non-compliant audits are submitted.

The auditor must not be responsible for the preparation or the maintenance of the project's basic accounting, financial records, or for creation of a trial balance. The auditor must adhere to the American Institute of Certified Public Accountants (AICPA) and Yellow Book Independence Standards.

## Audit Fee

Professional service costs, including the audit, may include the preparation of tax returns for the project itself, i.e., partnership or corporation returns where the project is the principal asset of the entity, but may not include the determining of alternative treatments of complex accounting issues. The tax advice costs to the owner must not be charged to the project. HCD or CalHFA may require a review of the auditor selection process.

# Independent Auditor's Responsibilities

## Performance Standards and Requirements

Financial Statements, including the notes and supplementary information, are to be audited in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (Yellow Book) in addition to Generally Accepted Auditing Standards (GAAS) developed by the Auditing Standards Board of the AICPA. Applicable Government auditing standards include the General Standards, and the Field Work and Reporting Standards for Financial Audits. The Financial Statements are also to be audited in accordance with the requirements of this Audit Handbook. The Financial Statements must include supplementary information and reports which HCD or CalHFA requires for general analysis of operations and for assurance of compliance with the applicable HCD or CalHFA Regulatory Agreement(s), HUD 4350.5, HUD OIG 2000.04, and OMB Uniform Guidance, as applicable.

The auditor must establish an understanding with the client regarding the services to be performed for each engagement, be qualified, and have current knowledge of the applicable auditing standards. The auditor must have an appropriate quality control system in place and undergo an external peer quality review within the last three years.

### **Upon completion of the audit, the auditor is to:**

1. Provide an opinion on whether the basic financial statements including notes and the supplementary information present fairly in all material respects, the financial position of the project.
2. Report on project compliance with laws, regulations and agreements, and internal control over financial reporting. Auditors must be alert to situations or transactions that are non-compliant with the Regulatory Agreement(s), or indications of waste, fraud, abuse, and illegal expenditures and acts.
3. Provide a schedule of audit findings as deemed appropriate (including resolutions of prior period findings) with comments and recommendations for the owner to cure the findings.

The auditor must notify HCD or CalHFA, as applicable, immediately if a scope limitation is placed upon the auditor in the course of performing the audit. If the audited entity is a non-profit subject to the requirements of OMB Uniform Guidance, local government or other governmental organization, audits must be performed in accordance with the Single Audit Act of 1986, the OMB Uniform Guidance, Government Auditing Standards as well as their amendments and revisions that are periodically updated.

## Independent Auditor's Responsibilities

### Examination of Tenant Files

The auditor should exercise professional judgment when determining the number of tenant files to examine. The auditor's responsibility is limited to matters that would have a material effect on the project's financial position such as:

- Household income and rent limits being applied in accordance with the Regulatory Agreement(s).
- Household occupancy requirements being met in accordance with the Regulatory Agreement(s).
- Annual owner physical unit inspections being conducted.
- Findings of non-compliance must include owner's plan for remedy.

For projects with CalHFA-administered HUD Section 8 contracts, refer to HUD audit guide OIG 2000.04 and HUD Handbook 4350.3 for the requirements of the tenant files sampling attributes.

The auditor should consider that HCD or CalHFA staff, as applicable, periodically review these files and report any non-compliance. If during the limited tests performed, the auditor becomes aware of a condition that requires attention; this condition must be reported to the owner. Any material noncompliance or condition that, in the opinion of the auditor should be improved, must be included in the Auditor's report; otherwise, no discussion of tenant files examination is necessary.

### Basic Financial Statements

The basic financial statements must be presented in comparative format. The statement of cash flows must be prepared in the direct method. If the statements are not on a basis consistent with those of the prior year, this must be explained fully in the Opinion and/ or the Notes to the Financial Statements. The auditor must use the format that provides basic financial statements that comply with GAAP and is applicable to the entity being presented. The AICPA has published audit and accounting guides for non-profit and governmental organizations. Where an event has occurred that affects the financial or structural status of the project or any owner entity, disclosure of the event is required.

# Notes to the Financial Statements and the Supplementary Information

Included in this Audit Handbook are two sample audited financial statements, together with supplementary information. The basic financial statements and supplementary information submitted to HCD and CalHFA should be comparable in format and content to what is shown in the Sample Project financial statements. In addition, a new Appendix C is added to this revised Handbook to display a clear sample of how a required Bifurcated Audit should present the two-year comparative format.

**Appendix A** is for all projects that have HCD and/or CalHFA funding, but do not have either CalHFA-administered HUD Section 8 or HUD Section 8 with a requirement to submit Audits to HUD/REAC as part of the Financial Assessment SubSystem.

Projects that have only HCD funding and also have either CalHFA-administered HUD Section 8 or HUD Section 8 with a requirement to submit Audits to HUD/REAC as part of the Financial Assessment SubSystem, must submit Appendix A plus the CalHFA Surplus Cash Computation (see page B 26). As shown in the Appendix A Supplementary Information, the Schedules of Operating Revenues and Expenses must be in comparative format and must use the current HUD chart of accounts (see pages A 22 to A 26) – refer to HUD's Account Definitions if needed.

**Appendix B** must be used for projects with no HCD funding and either CalHFA administered HUD Section 8 or HUD Section 8 with a requirement to submit Audits to HUD/REAC as part of the Financial Assessment SubSystem. As shown in the Appendix B Supplementary information, the Schedules of Operations must be in comparative format and must use the current HUD chart of accounts (see pages B 17 to B 20) – refer to HUD's Account Definitions.

**Appendix C** must be used when a project has COSR funding from CalHFA or HCD, which requires submittal of a Bifurcated Audit. This includes funding from programs such as CalHFA's MHSA and SHNP as well as HCD's HHC, NPLH, and PRP. Appendix C must also be used when a project is eligible for annuity funding from HCD's RHCP-Original or HLCP (see pages C 1 to C 10).

## **As illustrated in Appendix C:**

1. Schedules of Operating Revenues and Expenses must be presented in landscape format and include the following comparative (two-year) information and must use the current HUD chart of accounts.

## Notes to the Financial Statements and the Supplementary Information

2. Assisted Units – the number of Annuity/COSR Assisted Units must be shown, and the actual or prorated amounts (as applicable) must be shown for the Annuity/COSR Assisted Units.
3. Other Units – the number of units and the amounts attributable to those units must be shown in the column for all other units.
4. Total Units – the number of total project units and the total project amounts must be shown in the Totals column.
5. Show the allocation method(s) for all Assisted Unit amounts consistent with program eligible expenses and other deductions. For example, indicate “Actual” for expenses that can be directly attributable to Annuity/COSR Assisted Units, and indicate “Proration” for expenses that cannot be directly attributed to Annuity/COSR Assisted Units (such as insurance, taxes, certain utilities, and financial expenses). Consult with your HCD or CalHFA Fiscal Representative if needed.
6. The unit proration percentage is calculated as: Assisted Units divided by Total Units.
7. The Bifurcated Audit must also include an additional Assisted Unit cash flow calculation schedule, capturing the program eligible revenue, expenditures, and deductions attributable to the Assisted Units in a two-year comparative format (see pages C 9 to C 10).

### **Required financial statement notes and supplementary information:**

1. Organization and Nature of Activities – include the legal name of the owner and entity type, number of units, year project was constructed, and nature of the agreements with HCD or CalHFA and others. If the owner entity type is a special purpose entity such as a business trust, limited partnership, or limited liability company, include the legal name of the entities between the owner entity and the entity or entities that has or have direct control of the special purpose entity. For projects with tax credits, the Audit must report the earliest project placed in service date (month, day, and year) as well as the tax credit allocation date (rent floor date) as typically shown on Internal Revenue Service Form 8609. For tax credit projects that were placed in service prior to 2009, only the month and year the earliest project was placed in service is required.
2. Summary of Significant Accounting Policies
  - a. Accounting Method – HCD requires the Accrual Accounting Method. Audits submitted with an improper accounting method will be rejected by HCD, and the owner will be deemed to have not submitted a required Audit.
  - b. Estimates – disclosure that estimates are present in financial statements that are in conformity with accounting principles generally accepted in the United States of America.
  - c. Cash and Concentrations of Credit Risk – the cash funds and separate bank accounts

## Notes to the Financial Statements and the Supplementary Information

must be identified. The general operating account, unrestricted cash and other accounts are to be shown separately from restricted accounts. The amounts shown must agree to the totals shown on the Balance Sheet in the basic financial statements and, if applicable, the surplus cash computation.

- d. Accounts/Tenant Receivable – current amounts receivable (within 30 days) and amounts in excess of 30 days must be stated separately.
- e. Capitalization Policy – report whether the project has a capitalization policy in place.
- f. Other Assets – if the project has other assets and the nature is not readily determinable, as shown in the basic financial statement, a schedule is required.
- g. Tenant and Other Revenue Recognition – the detail of gross potential rent, including amounts received or receivable from tenants, subsidy payments, employee/manager apartments, vacancy loss, and concessions must all be reported (see page A 28). Commercial income must be shown in Account #5140. Detailed descriptions of other revenues must be provided when “Miscellaneous” operating revenue accounts total \$1,500 or greater (see Appendix A – descriptions must be clear; do not describe using “Other” or “Miscellaneous”).
- h. Accounts Payable – current amounts payable (within 30 days) and amounts in excess of 30 days must be stated separately.
- i. Other Payables – if other amounts are payable and the nature is not readily determinable, as shown in the basic financial statement, a schedule is required.
- j. Operating Expenses – detailed descriptions of other expenses must be provided when “Miscellaneous” operating expense accounts total \$1,500 or greater (see Appendix A – descriptions must be clear; do not describe using “Other” or “Miscellaneous”).

Property Management Fee: must comply with HUD’s allowed per unit per month amount and/or if applicable, the approved operating budget. Use HUD Account #6320, which reflects the cost of the property management agent services contracted by the project. Partnership fees or similar fees paid to an owner entity must not be included.

Supportive Services Costs: if any supportive services costs including service coordinator salary and benefits are paid from project income, use HUD Account #6990 (see pages A 25 to A 26). For most HCD and CalHFA funded projects, per Regulations, supportive services costs other than service coordinator salary and benefits are not an eligible expense and must be paid by a funding source other than the project’s operating income. Typically, such costs are paid by third party services agencies or by the owner.

## Notes to the Financial Statements and the Supplementary Information

income. Typically, such costs are paid by third party services agencies or by the owner. Projects regulated by the HCD 2017 Uniform Multifamily Regulations (UMRs) may include all supportive services costs as operating expenses as described and capped in §8301(t), 8301(u), and 8314(e). Supportive services costs must be reported in the four specific categories under HUD Account #6990 (see page A 26).

- k. HUD Account #7190 – detailed descriptions of expenditures must be provided for this account regardless of the amount.
  - l. Subsequent Events – describe any material events that have occurred from fiscal year end through the date the financial statements were available to be issued.
3. Related Party Transactions including Fees – all related party transactions including fees such as deferred developer fee, asset management fee, and similar fees must be broken out in a schedule showing the following:
- Name of the fee and the legal agreement requiring the fee.
  - Fee amount, method of calculation and HUD Account # charged. Note: HUD Account #7190 must include fees for asset management, supervisory, and other similar fees for services performed by partners or other identities of interest.
  - Description of the Identities of Interest.

Some HCD Regulatory Agreement(s) limit the amount of the deferred developer fee payable from project cash flow on a priority basis (defined as “prior to determining Net Cash Flow”). **Any amount not permitted as a priority payment must be paid from the owner’s allowable distribution. Limited deferred developer fees allowed to be paid on a priority basis must be separated and detailed in the Related Party Transactions footnotes.**

4. Restricted Accounts – Reserves, Impounds, and Tenant Security Deposits
- a. Restricted Funds including all Reserve Accounts – all required restricted accounts must be identified including the agency requiring the account, the name of the legal agreement(s) requiring the account, and the amount required. For each restricted account, a schedule must be included showing the following:
    - Beginning and ending balances
    - Deposits
    - Withdrawals – describe amounts capitalized or expensed. If withdrawals relate to the prior year capital purchases, footnote the applicable year and amounts.
    - Interest earned

## Notes to the Financial Statements and the Supplementary Information

- b. Impound Accounts – for each impound account, a schedule similar to the Restricted Funds schedule must be included. Per HCD and CalHFA Regulations, impound activity may not be included in the HCD and CalHFA Distribution of Operating Cash Flow/Surplus Cash computation.
  - c. Tenant Security Deposits – applicable law or regulation may provide different handling and security deposit accountability. The auditor must disclose security deposits on hand and the treatment of interest earned.
5. Property, Equipment, and Improvements – a schedule identifying the changes in each fixed asset category must be included. Retired fixed assets must also be identified.
  6. Deferred Costs and Amortization (see page A 16)
  7. Mortgages/Notes Payable – interest rate, interest expense amount, maturity date, applicable mandatory payment amount, and beginning/ending principal and accrued interest payable balance must be reported for each loan.
  8. Ground Lease – for projects having a ground lease, the Notes to the Financial Statements must include a summary of the lease terms and conditions including the name of the lessor, identity of interests, and whether the annual lease payment is an eligible operating expense or to be paid out of owner’s allowable distribution. If the lease payment is an authorized operating expense, indicate the HUD Account charged.
  9. HCD and CalHFA – Distribution of Operating Cash Flow/Surplus Cash – refer to the applicable HCD or CalHFA Regulatory Agreement(s) of the project to determine the distribution of Operating Cash Flow/Surplus Cash. A computation must be included that details the Operating Cash Flow/Surplus Cash as described in the Regulatory Agreement(s). An adjustment must be made to this computation when withdrawals from the Replacement Reserve Account are greater than the amount Capitalized, which indicates some of the withdrawals were included in operating expenses (see pages A 28 to A 29). **Timing difference exceptions related to Replacement Reserve withdrawals and capital purchases will be considered by HCD and CalHFA, if within 45 days of the end of the fiscal year. These differences must be clearly identified and noted.**

When withdrawals from the Replacement Reserve Account are less than the amount Capitalized, no adjustment to Other Activity within the Operating Cash Flow/Surplus Cash is allowed. Impound activity may not be included in the HCD and CalHFA Distribution of Operating Cash Flow/Surplus Cash computation.

NOTE: Residual receipt payments should not be submitted to HCD and CalHFA at completion and submittal of the Audit. Project owners should wait to submit payment to HCD and/or CalHFA until after HCD and/or CalHFA approves the Audit and a residual



## Notes to the Financial Statements and the Supplementary Information

receipts invoice is sent by HCD and/or CalHFA; though payment must be submitted within 30 days of receipt of the HCD and/or CalHFA approval letter regardless of receiving an invoice. For CalHFA-administered Section 8 projects, residual receipt payments must be submitted within 60 days after the close of the fiscal year.

10. CalHFA-administered Section 8 projects only: Surplus Cash Computation accumulated limited distributions and earned surplus, where applicable, requires a statement to list the amount of allowable limited distributions and the amount of prior period unpaid limited distributions, if any (see page B 26). Entity fees and expenses that are not part of project expenses, such as developer fees, incentive management fees, asset management fees, and partnership management fees are to be considered as distributions to owner. The CalHFA Regulatory Agreement may require surplus cash remaining after payment of a limited distribution, to remit the balance to CalHFA to be applied first to the reserve fund for operations (maximum balance to equal 5% of annual gross potential rent at fiscal year-end). Any remaining balance is earned surplus. Pre-80, small or partially assisted project's earned surplus account balance is owned and controlled by CalHFA. A Post-80 project's earned surplus account balance is owned and controlled by HUD. Any earned surplus or residual receipt must be remitted to CalHFA within 60 days of the project's fiscal year end. The calculation must be disclosed in the financial statements and the surplus cash format is posted on the CalHFA website at: [www.calhfa.ca.gov/multifamily/asset/forms/index.htm](http://www.calhfa.ca.gov/multifamily/asset/forms/index.htm)

# Appendix A:

## Sample Financial Statement for HCD or CalHFA Projects

**SUN COURT APARTMENTS, L.P.**  
**(A California Limited Partnership)**

HCD Contract Numbers: 02-NPLH-9999 and  
CalHFA Project Number: #03-333-N

**Financial Statements and Independent Auditor's Report**  
**For Years Ended December 31, 20YY and 20XX**

With accompanying information required by the California Department of Housing and  
Community Development and the California Housing Finance Agency

# Appendix A: Table of Contents

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# Independent Auditor's Report

The Partners of Sun Court Apartments, L.P.  
San Diego, California

## INDEPENDENT AUDITOR'S REPORT

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the accompanying financial statements of Sun Court Apartments, L.P., a California limited partnership, CalHFA Project No. 03-333-N and HCD Contract No. 02-NPLH-9999, which comprise the balance sheets as of December 31, 20YY and 20XX, and the related statements of operations, changes in partners' deficit and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sun Court Apartments, L.P. as of December 31, 20YY and 20XX, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### Basis for Opinion

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

#### Emphasis of Matter – Related-party Transactions

As discussed in Note 1 to the financial statements, Sun Court Apartments, L.P. is controlled by its general partner, SDHC Pacific Apartments, Inc., which is a nonprofit public benefit corporation under the control of the board of directors of SD Housing. Our opinion is not modified with respect to this matter.

#### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United

## Independent Auditor's Report

States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Sun Court Apartments, L.P.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Sun Court Apartments, L.P.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

## Independent Auditor's Report

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Sun Court Apartments, L.P.'s ability to continue as a going concern for a reasonable period of time.

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

### Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information on pages A 21 through A 29, as required by the HCD/CalHFA Audit Handbook, 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with 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.

### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 28, 20ZZ, on our consideration of Sun Court Apartments, L.P.'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 Sun Court Apartments, L.P.'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 Sun Court Apartments, L.P.'s internal control over financial reporting and compliance.

March 28, 20ZZ

Certified Public Accountants

City, California

SUN COURT APARTMENTS, L.P. (A California Limited Partnership)  
 CALHFA PROJECT NO. 03-333-N and HCD CONTRACT NO. 02-NPLH-9999  
 BALANCE SHEETS  
 DECEMBER 31, 20YY AND 20XX

Assets	20YY	20XX
Current assets:		
Cash	\$ 84,685	\$ 68,252
Receivables:		
Rent	26,234	18,400
Other	389	1,315
Prepaid expenses	9,035	8,109
Impound deposits (Note 3)	29,056	26,652
Total current assets	149,399	122,728
Restricted cash (Note 3):		
Replacement reserve	64,629	42,850
Operating reserve	65,019	64,311
Rent-up reserve	381	376
Tenant security deposits	53,096	48,438
Property and equipment – net (Note 4)	8,105,148	8,511,172
Deferred costs – net (Note 5)	26,818	27,286
Total assets	\$ 8,464,490	\$ 8,817,161

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS  
DECEMBER 31, 20YY AND 20XX

Liabilities and Partner's Deficit	20YY	20XX
Current liabilities:		
Accounts payable and accrued expenses	\$ 16,411	\$ 24,814
Related-party payable (Note 6)	56,299	63,690
Deferred revenue	-	12,131
Interest payable – current portion (Note 7)	80,483	45,314
Notes payable – current portion (Note 7)	93,009	69,684
Total current liabilities	246,202	215,633
Tenant security deposits	54,776	51,433
Interest payable – net of current portion (Note 7)	1,521,370	1,470,710
Notes payable – net of current portion (Note 7)	7,634,580	7,728,472
Total liabilities	9,456,928	9,466,248
Partners' deficit	(992,438)	(649,087)
Total liabilities and partners' deficit	\$ 8,464,490	\$ 8,817,161

The accompanying notes are an integral part of these financial statements.



STATEMENTS OF OPERATIONS  
YEARS ENDED DECEMBER 31, 20YY AND 20XX

	20YY	20XX
Income:		
Gross potential rent – residential	\$ 937,952	\$ 892,935
Less: vacancies	(6,428)	(12,959)
Interest income	1,505	1,101
Other income:		
Laundry income	12,731	10,388
Tenant charges	50	50
Miscellaneous	750	724
Total income	946,560	892,239
Operating expenses:		
Administrative	183,462	231,892
Utilities	107,278	107,836
Operating and maintenance	177,363	208,215
Taxes and insurance	79,321	93,546
Supportive services costs	88,371	6,530
Total operating expenses	635,795	648,019
Operating income	310,765	244,220
Financial, partnership and other (income) expenses:		
Partnership management fee (Note 6)	41,321	40,117
Asset management fee (Note 6)	8,369	8,125
Interest expense – mortgage loan (Note 7)	55,617	58,296
Interest expense – deferred loans (Note 7)	142,316	142,516
Ground lease (Note 6)	1	1
Forgiveness of debt (Note 7)	-	(265,000)
Total financial, partnership and other (income) expenses	247,624	(15,945)
Depreciation	406,024	402,359
Amortization	468	468
Net loss	\$ (343,351)	\$ (142,662)

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CHANGES IN PARTNERS' DEFICIT  
YEARS ENDED DECEMBER 31, 20YY AND 20XX

	General Partner <sup>a</sup>	Limited Partner <sup>b</sup>	Total
Partnership interest	0.01%	99.99%	100%
Balance, Dec 31, 20WW	\$ (506,425)	\$ -	\$ (506,425)
Net loss for 20XX	(142,662)	-	(142,662)
Balance, Dec 31, 20XX	(649,087)	-	(649,087)
Net loss for 20YY	(343,351)	-	(343,351)
Balance, Dec 31, 20YY	\$ (992,438)	\$ -	\$ (992,438)

<sup>a</sup> SDHC Sheridan Apartments, Inc.

<sup>b</sup> SDHC Partners LLC

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 20YY AND 20XX

	<b>20YY</b>	<b>20XX</b>
Cash flows from operating activities:		
Rental receipts	\$ 902,405	\$ 864,085
Interest income	1,505	1,101
Other receipts	16,874	11,927
Total receipts	920,784	877,113
Administrative	(130,547)	(207,608)
Management fee	(51,516)	(49,608)
Utilities	(106,282)	(108,918)
Operating and maintenance	(186,921)	(199,061)
Taxes and insurance	(44,104)	(64,684)
Property insurance	(36,143)	(30,175)
Supportive services costs	(88,371)	(6,477)
Interest	(109,327)	(121,268)
Partnership and asset management fees	(48,242)	(52,936)
Total disbursements	(801,453)	(840,735)
Net cash provided by operating activities	119,331	36,378
Cash flows from investing activity:		
Purchase of property and equipment	-	(67,946)
Net cash used in investing activity	-	(67,946)
Cash flow from financing activity:		
Payment of notes payable	(73,344)	(60,709)
Net cash used in financing activity	(73,344)	(60,709)
Net increase (decrease) in cash and restricted cash	45,987	(92,277)
Cash and restricted cash, beginning of year	250,879	343,156
Cash and restricted cash, end of year	\$ 296,866	\$ 250,879

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 20YY AND 20XX

	<b>20YY</b>	<b>20XX</b>
Reconciliation of net loss to cash flows from operating activities:		
Net loss	\$ (343,351)	\$ (142,662)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	406,492	402,827
Interest expense – permanent loan cost amortization	2,777	2,777
Forgiveness of debt	-	(265,000)
Increase in assets:		
Receivables	(6,908)	(4,067)
Prepaid expenses	(926)	(1,313)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(8,403)	8,532
Deferred revenue	(12,131)	(1,744)
Related-party payables	(7,391)	(40,504)
Tenant security deposits	3,343	765
Interest payable	85,829	76,767
Net cash provided by operating activities	\$ 119,331	\$ 36,378
Cash	\$ 84,685	\$ 68,252
Restricted cash:		
Impound deposits	29,056	26,652
Replacement reserve	64,629	42,850
Operating reserve	65,019	64,311
Rent-up reserve	381	376
Tenant security deposits	53,096	48,438
Total cash and restricted cash shown in the statements of cash flows	<u>\$ 296,866</u>	<u>\$ 250,879</u>

The accompanying notes are an integral part of these financial statements.

# Notes to Financial Statements

SUN COURT APARTMENTS, L.P. (A California Limited Partnership)  
CALHFA PROJECT NO. 03-333-N and HCD CONTRACT NO. 02-NPLH-9999  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 20YY AND 20XX

## NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

Sun Court Apartments, L.P. (the Partnership), a California limited partnership, was formed on August 29, 20BB to develop and operate an 80-unit affordable housing complex located in San Diego, California, which is currently operating under the name of Sun Court Apartments (the Project). The property was placed in service on September 4, 20VV and received a tax credit allocation (rent floor) on March 1, 20UU.

Permanent financing was obtained through loans from the California Housing Finance Agency (CalHFA), the Department of Housing and Community Development (HCD) No Place Like Home (NPLH) Program, the City of San Diego, and the Housing Trust San Diego. Permanent financing was also obtained through a forgivable loan from Tower Private Bank & Trust Company Affordable Housing Program, which was forgiven in February 20XX.

The Partnership is controlled by its general partner, SDHC Pacific Apartments, Inc., which is a nonprofit organization under the control of the board of directors of SD Housing, formerly San Diego Housing Corporation (SDHC).

The Project participates in the low-income housing tax credit program under Section 42 of the Internal Revenue Code as modified by the State of California. Various loan, regulatory and other agreements dictate the maximum income levels of new tenants and provide rent and other restrictions through 2078.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Accounting Method

The Partnership uses the accrual method of accounting, which recognizes income in the period earned and expenses when incurred, regardless of the timing of payments.

### Estimates

The preparation of 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 financial statements and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates.

## Notes to Financial Statements

### Revenue Recognition

The Partnership accounts for the existing leases with residential and commercial tenants of the Project as operating leases. Rental income is shown at its maximum gross potential. Vacancy loss and operating lease receivable deemed uncollectible are shown as a reduction in rental income. Rental units occupied by employees are included in rental income and as an expense of operations.

The Partnership's revenue is mainly derived from leases. Other income is ancillary to the lease process and is recognized as revenue at the point in time such income or fees are earned.

### Cash and Restricted Cash

Cash is defined as cash in demand deposit accounts as well as cash on hand. Restricted cash are funds restricted as to their use, regardless of liquidity, such as tenant security deposits, impound deposits, replacement reserve, operating reserve, and rent-up reserve.

### Accounts Receivable

Management elects to record bad debts using the direct write-off method. Accounting principles generally accepted in the United States of America require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the result that would have been obtained had the allowance method been followed.

### Property and Equipment, and Deferred Costs

Property and equipment is stated at cost of acquisition or construction. The costs of maintenance and repairs are charged to expense as incurred. Depreciation is computed based on the straight-line method over the estimated useful lives of the assets.

Deferred costs are incurred in order to obtain tax credits for the Project. Deferred costs are stated at cost and amortized on a straight-line basis.

The useful lives of the assets are estimated as follows:

Buildings and improvements	20 to 40 years
Off-site improvements	40 years
Site improvements	20 years
Furniture, fixtures, and equipment	12 years
Tax credit costs	10 years

The Partnership 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

## Notes to Financial Statements

estate to the future net undiscounted cash flow 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 the real estate exceeds the fair value of such property. There were no impairment losses recognized in 20YY and 20XX.

### Permanent Financing Costs

Costs incurred in order to obtain permanent financing are stated at cost and amortized on a straight-line basis into interest expense over the term of the loan. Permanent financing costs are reported as a direct deduction from the face amount of the related debt.

### Income Taxes

No provision for federal and state income taxes is included in the financial statements. The income or loss of the Partnership is reported by the partners on their income tax returns.

The Partnership believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Partnership's federal and state income tax returns for the years 20UU through 20XX are subject to examination by regulatory agencies, generally for three years and four years after they were filed for federal and state, respectively.

### Allocation of Partnership Income/Loss

Income or loss is allocated based on the partners' interests in the Partnership. Because the limited partner's losses are limited to its investment, the limited partner's equity will not be reduced below zero unless future capital contributions will be made in an amount sufficient to absorb the losses. All remaining losses are allocated to the general partner. Any subsequent income allocable to the limited partner is allocated to the general partner first until the general partner's share of that income offsets the losses not previously recognized by the limited partner.

### Compensated Absences

Compensated absences are not accrued. Accounting principles generally accepted in the United States of America require that compensated absences be accrued. However, the effect of not accruing compensated absences is not materially different from the result that would have been obtained had compensated absences been accrued.

### Subsequent Events

Management has evaluated subsequent events through March 28, 20ZZ, the date on which the financial statements were available to be issued.

## Notes to Financial Statements

### NOTE 3 - RESTRICTED CASH

#### Impound Deposits

The Partnership is required to make monthly deposits to impound accounts to cover insurance premiums and property taxes in accordance with the CalHFA regulatory agreement. The balance is held by CalHFA and expenditures are subject to the supervision and approval by CalHFA.

#### Replacement Reserve

The Partnership is required to maintain a reserve for replacement and repair of property and equipment in accordance with the partnership agreement and the lenders' regulatory agreements. The reserve is required to be funded in the amount of \$1,767 per month. The balance is held by CalHFA and expenditures are subject to the supervision and approval by CalHFA. Subsequent withdrawals from the replacement reserve are intended to be made to partially cover the capitalized expenditures of \$67,946 from 20XX. As of December 31, 20YY, the withdrawal has not yet been made but management still plans to withdraw the amount in 20ZZ.

#### Operating Reserve

The Partnership is required to maintain an operating reserve in accordance with the partnership agreement and the lenders' regulatory agreements. The reserve was initially funded using the proceeds from limited partner capital contributions in the amount of \$125,000, which includes a rent-up reserve of \$68,800. The balance is held by CalHFA and expenditures are subject to the supervision and approval by CalHFA.

#### Tenant Security Deposits

The Partnership is required to hold security deposits in a separate bank account in the name of the Project.

### NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	20YY	20XX
Land improvements	\$ 96,751	\$ 96,751
Buildings and improvements	13,726,195	13,726,195
Off-site improvements	143,909	143,909
Site improvements	563,166	563,166
Furniture, fixtures and equipment	432,140	432,140
	14,962,161	14,962,161
Less: accumulated depreciation	(6,857,013)	(6,450,989)
Total property and equipment	\$ 8,105,148	\$ 8,511,172



## Notes to Financial Statements

### NOTE 5 - DEFERRED COSTS

Deferred costs are summarized as follows:

	20YY	20XX
Ground lease acquisition costs	\$ 35,083	\$ 35,083
Less: accumulated amortization	(8,265)	(7,797)
Total deferred costs	\$ 26,818	\$ 27,286

### NOTE 6 - RELATED-PARTY TRANSACTIONS

Related-party transactions are summarized as follows:

<i>Payable/Paid to Description</i>	<i>Payable at Dec 31, 20YY</i>	<i>20YY Expense (Payment)</i>	<i>Payable at Dec 31, 20XX</i>	<i>20XX Expense (Payment)</i>
SDHC Management and Services Corporation				
Property mgmt. fee (HUD Account # 6320) <sup>(1)</sup>	\$ -	\$ 51,516 (51,516)	\$ -	\$ 49,608 (49,608)
Resident services fee (HUD Account # 6990) <sup>(2)</sup>	-	88,245 (88,245)	-	-
Bookkeeping fee (HUD Account # 6351)	-	6,042 (6,042)	-	6,042 (6,042)
Occupancy service fee (HUD Account # 6390)	-	4,770 (4,770)	-	4,770 (4,770)
Advance for operating expenses	6,606		15,446	
SDHC Properties Corporation				
Ground lease (HUD Account # 7190) <sup>(3)</sup>	3	1 -	2	1 -
SDHC Pacific Apartments, Inc.				
Partnership mgmt fee (HUD Account # 7190) <sup>(4)</sup>	41,321	41,321 (40,117)	40,117	40,117 (45,048)
SDHC Partners LLC				
Asset management fee (HUD Account # 7190) <sup>(5)</sup>	8,369	8,369 (8,125)	8,125	8,125 (7,888)
Total	<u>\$ 56,299</u>		<u>\$ 63,690</u>	

## Notes to Financial Statements

- (1) Property management of the Project is contracted with SDHC Management and Services Corporation for an annual amount of \$34,980, subject to annual increases.
- (2) SDHC Management and Services Corporation provides resident services to the Project for an annual fee based on an annual approved budget.
- (3) The Partnership leases the land on which the Project is built from SDHC Properties Corporation. The lease, in an amount of \$1 per year, will expire in August 20QQ. Ground lease expense is included in other partnership expenses. The rent has been set at a nominal amount for the specific purpose of assisting the lessee to operating and maintain the Project as an affordable housing complex in accordance with the terms and other requirements as specified in the ground lease agreement. The Partnership has elected to recognize the lease expense on an annual basis for operating leases with nominal rent amounts, instead of recognizing the right-of-use asset and corresponding lease liability.
- (4) An agreement with the general partner for partnership management services requires an annual fee of \$25,000, subject to 3% annual increases, and is payable from surplus/distributable cash (see Note 9). Unpaid fees accrue without interest.
- (5) An agreement with the limited partner for asset management services requires an annual fee of \$5,000, subject to 3% annual increases, and payable from surplus/distributable cash (see Note 9). Unpaid fees accrue without interest.

### NOTE 7 - NOTES PAYABLE

Notes payable are secured by the property unless otherwise noted and consist of the following:

	20YY		20XX	
	<i>Interest Payable</i>	<i>Principal</i>	<i>Interest Payable</i>	<i>Principal</i>
CalHFA loan, in the original amount of \$1,590,000, bears interest at 5.25% per annum, with monthly payments of principal and interest in the amount of \$8,780 starting Nov 1, 20GG, to be repaid in full by Oct 20BB. Interest expense was \$52,840 and \$55,519 in 20YY and 20XX, respectively.	\$ 4,297	\$ 982,274	\$ 4,526	\$ 1,034,566

## Notes to Financial Statements

	20YY		20XX	
	<i>Interest Payable</i>	<i>Principal</i>	<i>Interest Payable</i>	<i>Principal</i>
HCD No Place Like Home Program loan (NPLH loan), bears simple interest at 3% per annum, with annual payments equal to 0.42% of the unpaid principal amount for 29 years commencing on Dec 31, 20GG. Thereafter, annual payments are to be made in an amount equal to the lesser of the accrued and unpaid interest of the previous year or an amount determined by HCD. Additional payments are to be made from surplus/distributable cash (see Note 9), with the entire principal and accrued interest to be repaid in full by Sep 20MM. Interest expense was \$136,652 for both 20YY and 20XX.	1,596,670	4,555,064	1,509,109	286,712
Housing Trust San Diego loan (HTF loan), bears simple interest at 2% per annum, with annual payments of principal and accrued interest to be made from surplus/distributable cash (see Note 9), to be repaid in full by Sep 20MM. Interest expense was \$5,664 and \$5,864 in 20YY and 20XX, respectively.	886	265,660	2,389	286,712
City of San Diego loan (City loan), bears no interest until the HTF loan is fully repaid, at which time the loan will bear up to 3% interest subject to the availability of surplus/distributable cash. Annual payments are to be made from surplus/distributable cash (see Note 9) only after the HTF loan is fully repaid. The entire loan is due in Sep 20PP.	-	1,960,000	-	1,960,000
<b>Total</b>	<b>1,601,853</b>	<b>7,762,998</b>	<b>1,516,024</b>	<b>7,836,342</b>

## Notes to Financial Statements

	20YY		20XX	
	<i>Interest Payable</i>	<i>Principal</i>	<i>Interest Payable</i>	<i>Principal</i>
Less: unamortized permanent loan costs <sup>(1)</sup>	-	(35,409)	-	(35,409)
Current portion	(80,483)	(93,009)	(45,314)	(69,684)
Long-term portion	\$ 1,521,370	\$ 7,634,580	\$ 1,470,710	\$ 7,728,472

<sup>(1)</sup> Costs incurred in order to obtain permanent financing were \$83,313 and are amortized on a straight-line basis into interest expense over the term of the loan. Interest expense for amortization of permanent loan costs was \$2,777 for both 20YY and 20XX.

The Partnership had forgivable loan from Tower Private Bank & Trust Company Affordable Housing Program loan, which bore no interest and was due in September 20DD. The loan was forgiven in February 20XX.

Principal payments on notes payable for the next five years are subject to changes in net cash flow and are estimated as follows:

20ZZ	\$	93,009
20AA		58,068
20BB		61,191
20CC		64,482
20DD		67,950

### NOTE 8 - OTHER MATTERS

Other significant matters not discussed elsewhere in the Audit and that impact the project should be reported here.

### NOTE 9 - DISTRIBUTION OF SURPLUS/DISTRIBUTABLE CASH

Surplus cash, as defined in the partnership agreement and other lenders' regulatory agreements, is distributable as follows:

- i. First, to replenish any funds disbursed from the operating deficit reserve account until the operating deficit reserve account is funded to the operating reserve amount;
- ii. Second, to pay asset and partnership management fees not to exceed \$36,878 per year; and
- iii. Thereafter, the remaining surplus cash is distributable as follows:

## Notes to Financial Statements

- a. 50% towards debt service on the promissory notes in favor of HCD (NPLH loan), City of San Diego (City loan), and Housing Trust San Diego (HTF loan) in accordance with their prorated percentages:
  1. HCD (NPLH loan) - 65.71%; and
  2. City of San Diego (City loan) - 28.57%; and
  3. Housing Trust San Diego (HTF loan) – 5.72%
- b. The remaining balance shall be distributed as follows:
  1. Borrower Distributions per the regulatory agreements.

Distributable cash, if any, as defined by the partnership agreement, shall be applied in the following order of priority:

- i. 0.01% to the general partner
- ii. 0.01% to the administrative limited partners, and
- iii. 99.98% to the investor limited partners.

## Supplementary Information

**SUPPLEMENTARY INFORMATION REQUIRED BY THE CALIFORNIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT AND THE CALIFORNIA HOUSING FINANCE AGENCY (HCD/CALHFA), INCLUDING BREAKOUT OF “MISCELLANEOUS” ACCOUNT DETAILS**

## Supplementary Information

SUN COURT APARTMENTS, L.P. (A California Limited Partnership)  
SCHEDULES OF OPERATING REVENUES  
YEARS ENDED DECEMBER 31, 20YY AND 20XX

*Clearly describe misc. amounts over \$1,500; don't use "other" or "miscellaneous"*

		20YY	20XX
Rent revenue:			
5120	Rent revenue – gross potential	\$ 858,477	\$ 829,249
5121	Tenant assistance payments	79,411	63,686
5140	Rent revenue – stores and commercial	-	-
5170	Rent revenue – garage and parking	-	-
5180	Flexible subsidy revenue	-	-
5190	Miscellaneous rent revenue	64	-
5100T	Total rent revenue	937,952	892,935
Vacancies:			
5220	Apartments	6,428	12,959
5240	Stores and commercial	-	-
5250	Rental concessions	-	-
5270	Garage and parking space	-	-
5290	Miscellaneous	-	-
5200T	Total vacancies	6,428	12,959
5152N	Net rental revenue (rent revenue less vacancies)	931,524	879,976
Financial revenue:			
5410	Financial revenue – project operations	217	262
5430	Revenue from investments – residual receipts	-	-
5440	Revenue from investments – replacement reserve	575	428
5490	Revenue from investments – other reserve	713	411
5400T	Total financial revenue	1,505	1,101
Other revenue:			
5910	Laundry and vending revenue	12,731	10,388
5920	Tenant charges	50	50
5990	Miscellaneous revenue	750	724
5900T	Total other revenue	13,531	11,162
5000T	Total revenues	946,560	892,239

## Supplementary Information

SUN COURT APARTMENTS, L.P. (A California Limited Partnership)  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED DECEMBER 31, 20YY AND 20XX

*Clearly describe misc. amounts over \$1,500; don't use "other" or "miscellaneous"*

		20YY	20XX
<b>Administrative expenses:</b>			
6203	Conventions and meetings	3,656	1,691
6204	Management consultants	-	-
6210	Advertising and marketing	-	-
6250	Other renting expenses	825	939
6310	Office salaries	78,899	124,479
6311	Office expenses	8,417	11,814
6312	Office or model apartment rent	-	-
6320	Management fee	51,516	49,608
6330	Manager or superintendent salaries	-	-
6331	Administrative rent-free unit	10,080	10,080
6340	Legal expense – project	-	-
6350	Audit expense	12,200	11,800
6351	Bookkeeping fees/accounting services	6,042	6,042
6370	Bad debts	-	-
6390	Miscellaneous administrative expenses (see details)	11,827	15,439
6263T	Total administrative expenses	183,462	231,892
<b>Utilities expenses:</b>			
6450	Electricity	10,687	9,037
6451	Water	40,782	45,223
6452	Gas	23,152	18,662
6453	Sewer	32,657	34,914
6400T	Total utilities expenses	107,278	107,836



## Supplementary Information

SUN COURT APARTMENTS, L.P. (A California Limited Partnership)  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED DECEMBER 31, 20YY AND 20XX

		20YY	20XX
<b>Operating and maintenance expenses:</b>			
6510	Payroll	28,965	31,220
6515	Supplies	9,015	23,315
6520	Contracts	46,108	71,726
6521	Operating and maintenance rent-free unit	-	-
6525	Garbage and trash removal	48,600	45,027
6530	Security payroll/contract	-	-
6531	Security rent-free unit	-	-
6546	Heating/cooling repairs and maintenance	1,805	-
6548	Snow removal	-	-
6570	Vehicle and maintenance equipment operation and repairs	5,510	5,032
6580	Lease expense	-	-
6590	Miscellaneous operating and maintenance expenses (see details)	37,360	31,895
6500T	Total operating and maintenance expenses	177,363	208,215
<b>Taxes and insurance:</b>			
6710	Real estate taxes	3,067	3,222
6711	Payroll taxes (project's share)	8,664	12,361
6720	Property and liability insurance (hazard)	35,217	31,124
6721	Fidelity bond insurance	-	-
6722	Workers' compensation	3,135	4,499
6723	Health insurance and other benefits	28,438	42,340
6790	Miscellaneous taxes, licenses, permits and insurance	800	-
6700T	Total taxes and insurance	79,321	93,546
<b>Financial expenses:</b>			
6820	Interest on first mortgage (or bonds) payable	55,617	58,296
6825	Interest on other mortgage	19,131	19,131
6830	Interest on notes payable (long term)	-	-
6840	Interest on notes payable (short term)	-	-
6850	Mortgage insurance premium/service charge	-	-
6890	Miscellaneous financial expenses	-	-
6800T	Total financial expenses	74,748	77,427

## Supplementary Information

SUN COURT APARTMENTS, L.P. (A California Limited Partnership)  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED DECEMBER 31, 20YY AND 20XX

		20YY	20XX
<b>Supportive services costs: (break out within "miscellaneous account detail")</b>			
6990	Supportive services costs – resident services program (see details)	88,371	6,530
6900T	Total supportive services costs	88,371	6,530
6000	Total cost of operations before depreciation	710,543	725,446
5060T	Profit before depreciation	236,017	166,793
6600	Depreciation expenses	406,024	402,359
6610	Amortization expense	468	468
5060N	Operating loss	(170,475)	(236,034)
<b>NET ENTITY EXPENSES</b>			
<b>Entity revenue and expenses :</b>			
7120	Legal expenses	-	-
7141	Interest on notes payable	123,185	123,385
7142	Interest on mortgage payable	-	-
7190	Other (income) expenses (see details)	49,691	(216,757)
7100T	Net entity (revenue) expenses	172,876	(93,372)
3250	Net loss	\$ (343,351)	\$ (142,662)

## Supplementary Information

SUN COURT APARTMENTS, L.P. (A California Limited Partnership)  
SCHEDULE OF MISCELLANEOUS ACCOUNT DETAILS  
YEARS ENDED DECEMBER 31, 20YY AND 20XX

*Clearly describe misc. amounts over \$1,500; don't use "other" or "miscellaneous"*

	20YY	20XX
<b>Miscellaneous administrative expenses (Account 6390):</b>		
Hospitality	\$ 418	\$ 581
Tenant temporary relocation	390	-
Occupancy service fee	4,770	4,770
Bank charges	66	54
Internet service	1,758	1,654
Computer expenses	4,229	5,913
Cable TV	196	2,467
	<u>\$ 11,827</u>	<u>\$ 15,439</u>
<b>Miscellaneous operating and maintenance expenses (Account 6590):</b>		
Replacements	\$ 8,077	\$ 17,096
Security system services	18,629	4,896
Equipment rental	6,605	6,218
Pest control	4,049	3,685
	<u>\$ 37,360</u>	<u>\$ 31,895</u>
<b>Miscellaneous supportive services costs (Account 6990):</b> <i>all of the following expense line categories must be shown and used for all Account 6990 expenses</i>		
Supportive services staff supervisor salaries		\$ -
On-site supportive services coordinator salaries & benefits	\$ 88,245	\$ -
On-site other supportive services staff salaries	-	-
Supportive services administrative overhead	126	6,530
	<u>\$ 88,371</u>	<u>\$ 6,530</u>
<b>Other (income) expenses (Account 7190):</b>		
Ground lease	\$ 1	\$ 1
Partnership management fee	41,321	40,117
Asset management fee	8,369	8,125
Forgiveness of debt	-	(265,000)
	<u>\$ 49,691</u>	<u>\$ (216,757)</u>

## Supplementary Information

### Cash on Hand and in Banks

#### Unrestricted accounts:

Petty cash	\$	200
Checking account – operating and money market		84,485
Total	\$	84,685

#### Restricted accounts:

Mortgage impound accounts	\$	29,056
Replacement reserve		64,629
Operating reserve		65,019
Rent-up reserve		381
Tenant security deposits		53,096
Total	\$	212,181

Tenant security deposits are maintained in a separate account and interest earned on these deposits is credited to a liability account to be refunded or applied for the benefit of tenants. Interest earned in 20YY was \$41.

### Accounts Receivable

Accounts receivable consists of the following:

Receivables from tenants and subsidies due within 30 days	\$	26,623
-----------------------------------------------------------	----	--------

### Mortgage Impound Accounts

Details of mortgage impound accounts follow:

	<i>Property Taxes</i>	<i>Hazard/Liability Insurance</i>	<i>Total</i>
Balance, Dec 31, 20XX	\$ 741	\$ 25,911	\$ 26,652
Monthly deposits:			
Six months at \$231	1,386	-	1,386
Six months at \$2,876	-	17,256	17,256
Six months at \$266	1,596	-	1,596
Six months at \$3,083	-	18,498	18,498
Payment of taxes and insurance	(4,375)	(32,170)	(36,545)
Transfer	1,814	(1,814)	-
Interest earned	13	200	213
Balance, Dec 31, 20YY	\$ 1,175	\$ 27,881	\$ 29,056

## Supplementary Information

### Reserves for Replacements, Operating Expenses, and Others

In accordance with the provisions of the regulatory agreement, restricted cash is held by the California Housing Finance Agency (CalHFA) to be used for replacements of property or other reserve requirements with the approval of CalHFA as follows:

	<i>Replacement Reserve</i>	<i>Operating Reserve</i>	<i>Rent-Up Reserve</i>
Balance, Dec 31, 20XX	\$ 42,850	\$ 64,311	\$ 376
Deposits:			
Twelve months at \$1,767	21,204	-	-
Interest earned	575	708	5
Balance, Dec 31, 20YY	\$ 64,629	\$ 65,019	\$ 381

### Property, Equipment, and Improvements (PE and I)

Following are the details of property, equipment and improvements, at cost:

<i>PE &amp; I at Cost</i>	<i>Land Improvements</i>	<i>Off-Site Improvements</i>	<i>Buildings and Improvements</i>	<i>Site Improvements</i>	<i>Furniture, Fixtures, and Equipment</i>	<i>Total</i>
Balance, Dec 31, 20XX	\$ 96,751	\$ 143,909	\$ 13,726,195	\$ 563,166	\$ 432,140	\$ 14,962,161
Additions 20YY	-	-	-	-	-	-
Balance, Dec 31, 20YY	\$ 96,751	\$ 143,909	\$ 13,726,195	\$ 563,166	\$ 432,140	\$ 14,962,161

### Accounts Payable and Accrued Expenses

Accounts payable consists of the following:

Accounts payable within 30 days - trade	\$ 16,411
-----------------------------------------	-----------

### Gross Potential Rents

Tenant rental payments	\$ 842,033
Housing assistance payments	79,411
Employee unit shown as expense	10,080
Vacancy loss	6,428
Total gross Potential rents	\$ 937,952

### Management Fee

A property management fee of \$51,516 was incurred during 20YY for the property management services provided by SDHC Management and Services Corporation.

## Supplementary Information

SUN COURT APARTMENTS, L.P. (A California Limited Partnership)  
COMPUTATION OF EXCESS/DISTRIBUTABLE CASH  
YEARS ENDED DECEMBER 31, 20YY AND 20XX

	20YY	20XX
<b>Operating income:</b>		
Total income	\$ 946,560	\$ 892,239
Interest earned on reserves	(1,288)	(839)
Adjusted operating income	945,272	891,400
Operating expenses (exclude financial expenses in calculation)	635,795	648,019
Adjusted net income:	309,477	243,381
<b>Other activities:</b>		
Deposits into replacement reserve	(21,204)	(21,204)
Debt service – CalHFA	(105,361)	(105,360)
Debt service – HCD NPLH interest (.42%)	(19,131)	(19,131)
Supportive services expenses in excess of Regulatory Agreement limits	-	-
Withdrawal from replacement reserve (expensed)	-	8,736
Purchase of property and equipment	-	(67,946)
Withdrawal from reserve – subsequent to year-end	-	67,946 <sup>(1)</sup>
Excess/distributable cash	\$ 163,781	\$ 106,422
<b>Uses of excess/distributable cash:</b>		
Asset management / partnership management fee <sup>2</sup>	\$ 36,878	\$ 35,631
Deferred developer fee (fully paid as of 20UU)	-	-
Cash available for distribution:	\$ 126,903	\$ 70,791
Borrower distribution per Regulatory Agreement (50%)	\$ 63,452	\$ 35,396
Residual receipts distributions towards debt service (50%)		
HCD (NPLH loan) - (65.71%)	41,694	23,258
City of San Diego (City loan) - (28.57%)	18,128	10,112
Housing Trust San Diego (HTF loan) - (5.72%)	3,629	2,025
Total uses	\$ 126,903	\$ 70,791

<sup>(1)</sup> Subsequent withdrawals from the replacement reserve are intended to be made to partially cover the capitalized expenditures of \$67,946 from 20XX. As of December 31, 20YY, the withdrawal has not yet been made but management still plans to withdraw the amount in 20ZZ.

<sup>(2)</sup> Per the HCD NPLH Regulatory Agreement the asset management fee is limited. For 20YY the limit was \$36,878 and for 20XX was \$35,631. Per UMR §8314(a)(1)(B)1 the fee limit increases 3.5% each year.

## Other

SUN COURT APARTMENTS, L.P.  
(A California Limited Partnership)  
CALHFA PROJECT NO. 03-333-N  
HCD CONTRACT NO. 02-NPLH-9999  
MANAGEMENT AGENT CERTIFICATION  
YEAR ENDED DECEMBER 31, 20YY

I hereby certify that I have examined the accompanying financial statements and supplementary information of Sun Court Apartments, L.P., as of and for the year ended December 31, 20YY, and, to the best of my knowledge and belief, the same is complete and accurate.

*Sign Name*

Signature

President

Title

2/15/20ZZ

Date

SDHC Management and Services Corporation

Employer Identification Number: 99-8888888

## Other

SUN COURT APARTMENTS, L.P.  
(A California Limited Partnership)  
CALHFA PROJECT NO. 03-333-N  
HCD CONTRACT NO. 02-NPLH-9999  
CERTIFICATION OF OFFICERS  
YEAR ENDED DECEMBER 31, 20YY

I hereby certify that I have examined the accompanying financial statements and supplementary information of Sun Court Apartments, L.P., as of and for the year ended December 31, 20YY, and, to the best of my knowledge and belief, the same is complete and accurate.

<u><i>Sign Name</i></u>	<u>President</u>	<u>2/15/20ZZ</u>
Signature	Title	Date

<u><i>Sign Name</i></u>	<u>CFO</u>	<u>2/15/20ZZ</u>
Signature	Title	Date

SDHC Pacific Apartments, Inc.

Employer Identification Number: 99-99999999



## Other

The Partners  
Sun Court Apartments, L.P.  
San Diego, California

### **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**

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 Sun Court Apartments, L.P., which comprise the balance sheet as of December 31, 20YY, and the related statements of operations, changes in partners' deficit and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 28, 20ZZ.

#### Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Sun Court Apartments, L.P.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sun Court Apartments, L.P.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Sun Court Apartments, L.P.'s internal control.

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

## Other

our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

### Report on Compliance and Other Matters

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

### Purpose of This Report

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

**Certified Public Accountants**  
**City, California**

## Other

March 28, 20ZZ

Sun Court Apartments, L.P.  
HCD Contract Number 20-NPLH-9999  
and CalHFA Project No. #03-333-N

### **Summary of Audit Findings and Recommendations For the Year Ended December 31, 20YY**

#### **Status of Prior Year Findings and Recommendations:**

There were no findings and recommendations reported in the December 31, 20XX financial statements.

#### **Findings and Recommendations:**

1. Finding: During the FY 20YY audit of tenant files, the auditor noted two (2) instances where SApartments did not perform background checks on potential tenants as required by the Department of HUD.

Recommendation: We recommend background checks be performed on all potential tenants and retained as a part of the tenant file.

Management Response: The management policy is to complete background checks prior to move-in on all applicants. Any missing background checks may have been in files of very long-term residents, move-ins prior to HUD requirement. However, management will increase oversight to ensure all background checks in the future are completed.

# **Appendix B:** **Sample Financial Statement for CalHFA-administered** **Section 8 Projects**

**or**

## **Section 8 Projects required to submit Audited Financial** **Statements to HUD/REAC as part of the** **Financial Assessment SubSystem**

**SAMPLE APARTMENTS COMPANY**

**(A Limited Partnership)**

CalHFA Project #11-111-N

Financial Statements For  
Years Ended December 31, 20YY and 20XX  
and Independent Auditor's Report

# Appendix B

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# Independent Auditor's Report

The Partners  
Sample Apartments Company, L.P.  
City, California

## INDEPENDENT AUDITOR'S REPORT

### **Report on the Audit of the Financial Statements**

#### Opinion

We have audited the accompanying financial statements of Sample Apartments Company, L.P., a California limited partnership, CalHFA Project No. 11-111-N, which comprise the balance sheets as of December 31, 20YY and 20XX, and the related statements of operations, changes in partners' deficit and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sample Apartments Company, L.P. as of December 31, 20YY and 20XX, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### Basis for Opinion

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

#### Emphasis of Matter – Related-party Transactions

As discussed in Note 1 to the financial statements, Sample Apartments Company, L.P. is controlled by its general partner, Sample Apartments, Inc., which is a nonprofit public benefit corporation under the control of the board of directors of SA Housing. Our opinion is not modified with respect to this matter.

#### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United

## Independent Auditor's Report

States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Sample Apartments Company, L.P.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Sample Apartments Company, L.P.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Sample Apartments Company, L.P.'s ability to continue as a going concern for a reasonable period of time.

## Independent Auditor's Report

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

### Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information on pages B 15 through B 27, as required by the HCD/CalHFA Audit Handbook, 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with 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.

### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 28, 20ZZ, on our consideration of Sample Apartments Company, L.P.'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 Sample Apartments Company, L.P.'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 Sample Apartments Company, L.P.'s internal control over financial reporting and compliance.

March 28, 20ZZ

Certified Public Accountants

City, California



Sample Apartments  
Balance Sheets  
For The Years Ended December 31, 20YY and 20XX

Assets	20YY	20XX
<b>Current assets:</b>		
Cash on hand and in banks	\$ 4,237	\$ 36,393
Prepaid insurance	7,337	7,406
Accounts receivable- Tenant	4	-
Accounts receivable- CalHFA	482	-
Accrued interest	629	1,255
<b>Restricted funds (Note 2)</b>		
Tenant security deposits	26,043	25,965
Tax impound account	8,227	11,417
Insurance impound account	10,307	8,756
Earthquake insurance impound	3,142	5,274
Reserve for replacements (Note 2)	69,426	99,258
Reserve fund for operations (Note 2)	20,270	19,289
Total current assets	<u>\$ 150,104</u>	<u>\$ 215,013</u>
Property, equipment, and improvements at cost less accumulated depreciation	\$ 209,194	\$ 235,588
<b>Other assets:</b>		
Deferred development costs, net (Note 1)	940	1,037
<b>TOTAL ASSETS</b>	<u><u>\$ 360,238</u></u>	<u><u>\$ 451,638</u></u>

Liabilities And Partners' Capital	20YY	20XX
<b>Current liabilities:</b>		
Current portion of mortgage loan payable	\$ 56,119	\$ 51,626
Accounts payable	1,760	19,818
Prepaid rent	33	-
Accrued interest- security deposits (Note 1)	2,764	2,493
Tenant security deposits	18,079	18,089
Total current liabilities	<u>\$ 78,755</u>	<u>\$ 92,026</u>
Mortgage loan payable, net of current portion (Note 3)	\$ 815,848	\$ 871,967
Partners' capital	\$ (534,365)	\$ (512,355)
<b>TOTAL LIABILITIES AND PARTNERS' CAPITAL</b>	<u><u>\$ 360,238</u></u>	<u><u>\$ 451,638</u></u>

Sample Apartments  
Statements of Operations  
For The Years Ended December 31, 20YY and 20XX

	20YY	20XX
<b>Income:</b>		
Gross potential tenant rent - residential	\$ 453,401	\$ 456,557
Less: vacancies	(2,409)	(4,120)
Net rental income	450,992	452,437
Interest income	5,540	6,688
Other income	4,268	3,607
Total income	\$ 460,800	\$ 462,732
<b>Expenses:</b>		
Administrative	122,070	116,373
Utilities	43,070	40,331
Operating and maintenance	140,812	114,746
Taxes and insurance	54,752	54,499
Financial expenses	76,396	79,961
Total operating expenses	\$ 437,100	\$ 405,910
Net operating income	\$ 23,700	\$ 56,822
<b>Other expenses:</b>		
Depreciation and amortization	26,491	26,142
State minimum tax	800	800
Surplus Cash due to CalHFA	13,793	-
Partnership management fee	-	-
Loss on retirement of fixed assets	-	-
Total other expenses	\$ 41,084	\$ 26,942
Net income (loss)	\$ (17,384)	\$ 29,880

Sample Apartments  
 Statements of Changes in Partner's Capital  
 For The Years Ended December 31, 20YY and 20XX

	Balance 12/31/20XX	Net Loss for 20YY	Distributions in 20YY	Balance 12/31/20YY
<b>General Partners</b>				
Placer Trust "A" (4.97%)	\$(35,227)	\$(820)	\$(229)	\$(36,276)
A Corporation (.01%)	(49)	(17)	(1)	(67)
ABCD, Inc. (.01%)	(48)	(16)	(1)	(65)
<b>Limited Partners</b>				
Associated Group (.01%)	(48)	(16)	(1)	(65)
California Home Group (95%)	(476,983)	(16,515)	(4,394)	(497,892)
<b>Total</b>	<b>\$(512,355)</b>	<b>\$(17,384)</b>	<b>\$(4,626)</b>	<b>\$(534,365)</b>

Sample Apartments  
Statements of Cash Flows  
For The Years Ended December 31, 20YY and 20XX

	20YY	20XX
<b>Cash flows from operating activities:</b>		
Rental receipts	\$ 450,125	\$ 452,080
Interest receipts	2,496	2,418
Other receipts	4,268	3,607
Administrative expenses paid	(33,951)	(18,739)
Management fees paid	(35,376)	(35,376)
Utilities paid	(44,051)	(41,071)
Salaries and wages paid	(101,334)	(76,288)
Operating and maintenance expenses paid	(137,200)	(94,621)
Payroll taxes, workers' compensation, and employee benefit	(18,482)	(16,429)
Real property taxes	(17,789)	(18,829)
Miscellaneous taxes and insurance paid	(1,138)	(1,369)
Interest on mortgage note paid	(75,399)	(79,533)
Tenant security deposits (net)	183	(788)
Net cash provided by (used in) operating activities	<u>(7,648)</u>	<u>75,062</u>
<b>Cash flows from investing activity:</b>		
Purchase of property and equipment	-	-
Net cash used in investing activity	<u>-</u>	<u>-</u>
<b>Cash flows from financing activities:</b>		
Mortgage principal payments	(51,626)	(47,492)
Cash distributions paid to partners	(4,626)	(4,626)
Entity expense	(800)	(800)
Net cash used in financing activities	<u>(57,052)</u>	<u>(52,918)</u>
Net increase (decrease) in cash and restricted cash	(64,700)	22,144
Cash and restricted cash - beginning of year	206,352	184,208
Cash and restricted cash - end of year	\$ 141,652	\$ 206,352

Sample Apartments  
Statements of Cash Flows  
For The Years Ended December 31, 20YY and 20XX

	20YY	20XX
<b>Reconciliation of net loss to net cash provided (used in) operating activities:</b>		
Net income (loss)	\$ (17,384)	\$ 29,880
<b>Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:</b>		
Depreciation	\$ 26,394	\$ 26,045
Amortization	97	97
State minimum tax	800	800
Surplus cash due to CalHFA	13,793	-
<b>(Increase) decrease in assets:</b>		
Accounts receivable	(742)	(740)
Accrued interest	(486)	47
Prepaid insurance	626	352
<b>Increase (decrease) in liabilities:</b>		
Accounts payable	(17,169)	42,910
Prepaid rent	33	649
Tenant security deposit - liability	183	(1,578)
<b>Net cash provided by operating activities</b>	<b>\$ (7,648)</b>	<b>\$ 75,062</b>
<b>Cash</b>	<b>\$ 4,237</b>	<b>\$ 36,393</b>
<b>Restricted cash:</b>		
Tenant security deposits	26,043	25,965
Tax impound account	8,227	11,417
Insurance impound account	10,307	8,756
Earthquake insurance impound	3,142	5,274
Reserve for replacements	69,426	99,258
Reserve fund for operations	20,270	19,289
<b>Total cash and restricted cash shown in the statements of cash flows</b>	<b>\$ 141,652</b>	<b>\$ 206,352</b>

# Notes to Financial Statements

Sample Apartments  
CalHFA #11-111-N  
Notes To Financial Statements  
For The Years Ended December 31, 20YY and 20XX

## Note 1 – Summary Of Significant Accounting Policies

### Organization and Regulatory Agreement

The Sample Apartments Company is a limited partnership organized to develop, own, and manage a 67-unit two-story apartment complex, located at 1450 Street Name, Anytown, California with construction and permanent mortgage loan financing insured by the California Housing Finance Agency (CalHFA). The 67 units are comprised of 44 one-bedroom units and 23 two-bedroom units. The project is intended for rental to senior citizens of low or moderate income and has entered into an agreement with the United States Department of Housing and Urban Development to provide housing assistance payments pursuant to Section 8 of the United States Housing Act of 1937, as amended. At December 31, 20YY, 65 units were subsidized by Section 8. Such projects are regulated by CalHFA as to rent charges and operating methods. The Regulatory Agreement limits annual distributions of net operating receipts to 6% of the owner's equity (\$77,100) to be paid only when surplus cash exists at the end of the year. Undistributed amounts are accumulated for future distributions. The property was placed in service on September 4, 20VV and received a tax credit allocation (rent floor) on March 1, 20UU.

The partnership began June 10, 19XX, when it acquired all of the assets and liabilities of Sample Apartments Company Apartments in the development stage. The conversion was approved by all parties involved including CalHFA who has provided the construction and permanent loan of \$1,xxx,xxx.

### Financial Statement Presentation

The accompanying financial statements are presented on the accrual basis of accounting. For purposes of the financial statements, cash is defined as unrestricted cash balances.

### Depreciation

The cost of buildings and improvements is being depreciated by accelerated methods over estimated useful lives, which range from three to 33 1/3 years for the various components of cost.

### Income Taxation

The partnership is not subject to income taxation as the income or loss of the partnership is required to be reported by the respective partners on their income tax returns. However, the partnership is subject to the State of California minimum franchise tax, which amounted to \$800 in both 20YY and 20XX.

## Notes to Financial Statements

### Interest on Security Deposit Liabilities

Security deposit liabilities at December 31, 20YY include accrued interest payable to the tenants on their deposits from the date of receipt to December 31, 20YY in the amount of \$2,764.

### Employee Apartments

The fair market value of employee rental allowances is included in the accompanying financial statements as part of gross rental income and payroll expenses.

### Accounts Receivable

It is the practice of Sample Apartments Company to expense uncollectible only after exhausting all efforts to collect the amount due. No allowance for doubtful accounts is used and management believes all amounts will be collected in full.

### Note 2- Restricted Funds

#### Accrued Interest

Accrued interest represents the amount of interest earned but not yet received at December 31, 20YY on the following restricted accounts:

Tax and insurance impounds	\$	120
Reserve for replacement		415
Reserve fund for operations		94
Total accrued interest	\$	<u>629</u>

### Tenant Security Deposits

Tenant security deposits are maintained in a separate account and interest earned on the deposits is credited to a liability account to be refunded or applied for the benefit of tenants. Interest earned during 20YY was \$78. The activity in the account for 20YY was as follows:

Balance, Dec 31, 20XX	\$	25,965
Interest earned		78
Balance, Dec 31, 20YY	\$	<u>26,043</u>

### Impounds

As required by the Regulatory Agreement with CalHFA, the Partnership is to make monthly impound deposits to cover insurance premiums, property taxes, and to maintain a reserve for replacement. These restricted funds are held by CalHFA and expenditures are subject to supervision and approval by that agency.

## Notes to Financial Statements

The account activity during 20YY was as follows:

	Insurance	Earthquake Insurance	Taxes	Total
Balance, Dec 31, 20XX	\$ 8,756	\$ 5,274	\$ 11,417	\$ 25,447
Additions	14,060	3,060	21,420	38,540
Interest received	-	-	1,050	1,050
Deductions-				
Hazard insurance	(12,509)	-	-	(12,509)
Earthquake insurance	-	(5,192)	-	(5,192)
Real property taxes	-	-	-	-
Balance, Dec 31, 20YY			(25,660)	(25,660)
	<u>\$ 10,307</u>	<u>\$ 3,142</u>	<u>\$ 8,227</u>	<u>\$ 21,676</u>

### Replacement Reserve

The Replacement Reserve may be used for replacement of assets or excess operating costs with CalHFA's approval. Activity in the account during 20YY was as follows:

Balance, Dec 31, 20XX	\$ 99,258
Additions	18,876
Interest received	3,670
Withdrawals	(52,139)
Transfer	(239)
Balance, Dec 31, 20YY	<u>\$ 69,426</u>

### Reserve Fund for Operations

Restricted funds include reserve fund for operations of \$20,270 at December 31, 20YY, which has been designated by CalHFA as a reserve needed to fund future extraordinary operating expenses. The activity in the account for 20YY was as follows:

Balance, Dec 31, 20XX	\$ 19,289
Interest received	742
Transfer	239
Balance, Dec 31, 20YY	<u>\$ 20,270</u>

### Note 3 - Mortgage Loan Payable

The partnership has a mortgage loan payable to the California Housing Finance Agency with an original balance of \$1,xxx,xxx. The note bears interest at 7.375% and has a 40-year



## Notes to Financial Statements

term. Monthly payments of principal and interest are \$10,585. Amortization of the note began April 1, 19xx and the note is due April 1, 20KK. The apartment complex is pledged as collateral.

Principal amounts maturing over the next five years and thereafter are as follows:

20ZZ	\$	56,119
20AA		61,004
20BB		66,314
20CC		72,085
20DD		78,360
20EE-20JJ		508,783
20KK		31,302
Total	\$	<u>871,967</u>

### Note 4 – Related Party Transactions

The partnership employs AM Management Company, an affiliate of A Corporation (a general partner) as its management agency for the project. The management fees paid to them are subject to the regulations and approval of the California Housing Finance Agency (CalHFA). The total cost of management fees incurred during 20YY was \$35,376. AM Management Company also allocates certain personnel and supply costs to the project, the amount of which is not material.

The partnership employs Any Landscape Company, which is a related party to A Corporation, one of the general partners, to perform grounds maintenance for a monthly contract amount plus reimbursement for materials and labor costs for additional services provided. The total payments made to Any Landscape during 20YY were \$20,992.

### Note 5 – Commingled Funds

There were no commingled funds during the year.

### Note 6 - Book To Tax Reconciliation

Depreciation methods used in preparing the financial statements differ from those required for the partnership tax return. These differences in depreciation expense result in the difference between the net loss reported in the financial statements and net loss reported in the partnership tax return. These differences are summarized as follows:

	Financial Statements	Tax Return	Difference
Depreciation expense	\$ 26,394	\$ 14,673	\$ 11,721
Net Loss per financial statements			(17,384)
Net Loss per tax return			<u>\$ (5,663)</u>

## Supplementary Information

Sample Apartments  
Balance Sheet Data  
December 31, 20YY

Acct No.		20YY
	Current Assets	
1120	Cash - Operations	\$ 4,237
1130	Tenant/Member Accounts Receivable (Coop)	4
1135	Account Receivable - HUD	482
1160	Accounts Receivable - Interest	629
1200	Prepaid Expenses	7,337
1100T	Total Current Assets	<u>\$ 12,689</u>
	Deposits Held in Trust - Funded	
1191	Tenant/Patient Deposits Held in Trust	\$ 26,043
	Restricted Deposits and Funded Reserves	
1310	Escrow Deposits	\$ 21,676
1320	Replacement Reserve	69,426
1330	Other Reserves	20,270
1300T	Total Deposits	<u>\$ 111,372</u>
	Rental Property	
1410	Land	\$ 183,324
1420	Buildings	1,602,686
1440	Building Equipment - Portable	223,689
1450	Furniture for Project/Tenant Use	-
1465	Office Furniture and Equipment	18,152
1470	Maintenance Equipment	8,548
1480	Motor Vehicles	-
1490	Miscellaneous Fixed Assets	45,521
1495	Accumulated Depreciation	(1,872,726)
1400N	Net Fixed Assets	<u>\$ 209,194</u>
	Other Assets	
1515	Investments - Entity	\$ 940
1500T	Miscellaneous Other Assets	\$ 940
1000T	Total Assets	<u><u>\$ 360,238</u></u>

## Supplementary Information

Sample Apartments  
Balance Sheet Data  
December 31, 20YY

Acct No.	Liabilities And Partners' Equity (Deficit)	20YY
	Current Liabilities	
2110	Accounts Payable - Operations	\$ 1,760
2170	Mortgage (or Bonds) Payable- First Mortgage (Bonds) (Short Term)	56,119
2210	Prepaid Revenue	33
2122T	Total Current Liabilities	<u>\$ 57,912</u>
	Deposits Liability	
2191	Tenant/Patient Deposits Held in Trust (Contra)	\$ 20,843
	Long-Term Liabilities	
2310	Notes Payable (Long Term)	\$ 815,848
2300T	Total Long Term Liabilities	<u>\$ 815,848</u>
2000T	Total Liabilities	<u>\$ 894,603</u>
3130	Total Net Assets	<u>\$ (534,365)</u>
2033T	Total Liabilities and Equity/Net Assets	<u>\$ 360,238</u>

## Supplementary Information

Sample Apartments  
Statements of Operations  
For the Years Ended December 31, 20YY and 20XX

Acct No.	Schedule of Operations	20YY	20XX
	Rent Revenue		
5120	Rent Revenue- Gross Potential	\$ 453,401	\$ 456,557
5121	Tenant Assistance Payments	-	-
5140	Rent Revenue- Stores and Commercial	-	-
5170	Garage and Parking Spaces	-	-
5180	Flexible Subsidy Revenue	-	-
5190	Miscellaneous Rent Revenue <i>(clearly describe; don't use other)</i>	-	-
5100T	Total Rent Revenue	<u>\$ 453,401</u>	<u>\$ 456,557</u>
	Vacancies		
5220	Apartments	\$ 2,409	\$ 4,120
5240	Stores and Commercial	-	-
5250	Rental Concessions	-	-
5270	Garage and Parking Spaces	-	-
5290	Miscellaneous <i>(clearly describe; don't use other)</i>	-	-
5200T	Total Vacancies	<u>\$ 2,409</u>	<u>\$ 4,120</u>
5152	Net Rental Revenue (Rent Revenue Less Vacancies)	<u>\$ 450,992</u>	<u>\$ 452,437</u>
	Financial Revenue		
5410	Financial Revenue- Project Operations	\$ 5,540	\$ 6,688
5430	Revenue from Investments- Residual Receipts	-	-
5440	Revenue from Investments- Replacement Reserves	-	-
5490	Revenue from Investments- Misc. <i>(clearly describe; don't use other)</i>	-	-
5400T	Total Financial Revenue	<u>\$ 5,540</u>	<u>\$ 6,688</u>
	Other Revenue		
5910	Laundry and Vending Revenue	-	-
5920	Tenant Charges	-	-
5990	Miscellaneous Revenue <i>(clearly describe; don't use other)</i>	\$ 4,268	\$ 3,607
	5990-010 Description: Cable TV		
	5990-020 Amount: \$4,268		
5900T	Total Other Revenue	<u>\$ 4,268</u>	<u>\$ 3,607</u>
5000T	Total Revenue	<u><u>\$ 460,800</u></u>	<u><u>\$ 462,732</u></u>

## Supplementary Information

Sample Apartments  
Statements of Operations  
For the Years Ended December 31, 20YY and 20XX

Acct No.	Schedule of Operations	20YY	20XX
	Administrative Expenses		
6203	Conventions and Meetings	-	-
6204	Management Consultants	-	-
6210	Advertising and Marketing	\$ 1,665	\$ 1,501
6250	Other Renting Expenses	4,770	5,528
6310	Office Salaries	10,736	10,107
6311	Office Expenses	8,016	5,802
6312	Office or Model Apartment Rent	-	-
6320	Management Fee	35,376	35,376
6330	Manager or Superintendent Salaries	36,256	26,126
6331	Administrative Rent Free Unit	14,448	14,448
6340	Legal Expense - Project	-	-
6350	Audit Expense	4,700	4,600
6351	Bookkeeping Fees/Accounting Services	-	-
6370	Bad Debts	414	404
6390	Misc. Administrative Expenses <i>(clearly describe; don't use other)</i>	5,689	1,308
6390	6390-010 Description: Cable TV	-	-
	6390-020 Description: Amount: \$5,689		
6263T	Total Administrative Expenses	\$ 122,070	\$ 105,200
	Utilities Expense		
6450	Electricity	\$ 20,240	\$ 20,296
6451	Water	22,830	20,035
6452	Gas	-	-
6453	Sewer	-	-
6400T	Total Utilities Expense	\$ 43,070	\$ 40,331

## Supplementary Information

Sample Apartments  
Statements of Operations  
For the Years Ended December 31, 20YY and 20XX

Acct No.	Schedule of Operations	20YY	20XX
	Operating And Maintenance Expenses		
6510	Payroll	\$ 30,782	\$ 25,607
6515	Supplies	20,936	11,752
6520	Contracts	60,428	62,522
6521	Operating and Maintenance Rent Free Unit	-	-
6525	Garbage and Trash Removal	14,567	14,433
6530	Security Payroll/ Contract	2,344	2,121
6531	Security Rent Free Unit	-	-
6546	Heating/Cooling Repairs and Maintenance	-	-
6548	Snow Removal	-	-
6570	Vehicle and Maintenance Equip. Operation and Repairs	1,233	902
6580	Lease Expense	-	-
6590	Misc. Op. and Maintenance Expenses <i>(clearly describe; don't use other)</i>	10,522	10,635
	6590-010 Description: Repair and Maintenance		
	6590-020 Amount: \$10,522		
6500T	Total Operating and Maintenance Expenses	\$ 140,812	\$ 127,972
	Taxes & Insurance		
6710	Real Estate Taxes	\$ 21,560	\$ 21,034
6711	Payroll Taxes (Project's share)	10,856	10,274
6720	Property & Liability Insurance (Hazard)	14,569	14,842
6721	Fidelity Bond Insurance	-	
6722	Workmen's Compensation	-	
6723	Health Insurance and Other Employee Benefits	7,626	6,155
6790	Misc. Taxes, Licenses, Permits & Insurance <i>(clearly describe; don't use other)</i>	141	141
6700T	Total Taxes and Insurance	\$ 54,752	\$ 52,446

## Supplementary Information

Sample Apartments  
Statements of Operations  
For the Years Ended December 31, 20YY and 20XX

Acct No.	Schedule of Operations	20YY	20XX
	Financial Expenses		
6820	Interest on First Mortgage (or Bonds) Payable	\$ 75,399	\$ 79,533
6830	Interest on Notes Payable (Long Term)	-	
6840	Interest on Notes Payable (Short Term)	997	428
6890	Miscellaneous Financial Expenses <i>(clearly describe; don't use other)</i>		
6800T	Total Financial Expenses	76,396	79,961
6890	Miscellaneous Financial Expenses <i>(clearly describe; don't use other)</i>	-	-
6800T	Total Financial Expenses	\$ 76,396	\$ 76,396
6000	Total Cost of Operations before Depreciation	\$ 437,100	\$ 405,910
5060	Profit (Loss) before Depreciation	\$ 23,700	\$ 56,822
	Depreciation & Amortization Expenses		
6600	Depreciation Expense	\$ 26,394	\$ 26,045
6610	Amortization Expense	97	97
5060N	Operating Profit (Loss)	\$ (2,791)	\$ 30,680
	Net Entity Expenses <i>(not all expense accounts are shown)</i>		
7105	Entity Revenue	-	-
7110	Officer's Salaries	-	-
7120	Legal Expenses	-	-
7130	Federal, State, and Other Income Taxes	\$ 800	\$ 800
7141	Interest on Notes Payable	-	-
7142	Interest on Mortgage Payable	-	-
7190	Other Expenses (detail always required for this account)	13,793	
	7190-010 Description: Surplus Cash due to CalHFA		
	7190-020 Amount: \$13,793		
7100T	Total Net Entity Expenses	\$ 14,593	\$ 800
3250	Change in Total Net Assets from Operations	\$ (17,384)	\$ 29,880

## Supplementary Information

Sample Apartments  
Statements of Operations  
For the Years Ended December 31, 20YY and 20XX

Acct No.	Schedule of Operations	20YY	20XX
S1000-10	Total first mortgage (or bond) principal payments required during the audit period (usually 12 months). This applies to all direct loans and CalHFA-held and fully insured mortgages. Any CalHFA approved second mortgages should be included in the figures.	-	-
S1000-20	The total of all monthly reserve for replacement deposits (usually 12) required during the audit period even if deposits have been temporarily waived or suspended.	\$ 21,600	\$ 21,600
S1000-30	Replacement Reserves or Residual Receipts and Releases which are included as expense items on this Profit and Loss Statement.	-	-
S1000-40	Project Improvement Reserve releases under the Flexible Subsidy Program that is included as expense items on this Income Statement.	-	-



## Supplementary Information

### Statements of Cash Flow For the Years Ended December 31, 20YY and 20XX

Acct No.		20YY	20XX
	Cash flows from operating activities:		
S1200-010	Rental receipts	\$ 450,125	\$ 452,080
S1200-020	Interest receipts	2,496	2,418
S1200-030	Other operating receipts	4,268	3,607
S1200-050	Administrative	(33,951)	(18,739)
S1200-070	Management fee	(35,376)	(35,376)
S1200-090	Utilities	(44,051)	(41,071)
S1200-100	Salaries and wages	(101,334)	(76,288)
S1200-110	Operating and maintenance	(137,200)	(94,621)
S1200-120	Real estate taxes	(17,789)	(18,829)
S1200-140	Property insurance	(18,482)	(16,429)
S1200-150	Miscellaneous taxes and insurance	(1,138)	(1,369)
S1200-160	Tenant security deposits	183	(788)
S1200-170	Other operating expenses	-	-
S1200-180	Interest on first mortgage	(75,399)	(79,533)
S1200-181	Interest payments – second mortgage	-	-
S1200-190	Interest on notes payable	-	-
S1200-220	Miscellaneous financial	-	-
S1200-240	Net cash provided by operating activities	(7,648)	75,062
	Cash flows from investing activities:		
S1200-330	Net purchase of fixed assets	-	-
S1200-340	Other investing activities	-	-
S1200-350	Net cash used in investing activities	-	-
	Cash flows from financing activities:		
S1200-360	Principal payments – first mortgage	(51,626)	(47,492)
S1200-361	Principal payments – second mortgage	-	-
S1200-365	Proceeds from mortgages, loans, or notes payable	-	-
S1200-370	Principal payments on loans or notes payable	-	-
S1200-450	Other financing activities	(5,426)	(5,426)
S1200-460	Net cash provided by financing activities	(57,052)	(52,918)
S1200-470	Net increase in cash and restricted cash	(64,700)	22,144
S1200-480	Cash and restricted cash, beginning of year	206,352	184,208
S1200T	Cash and restricted cash, end of year	\$ 141,652	\$ 206,352

## Supplementary Information

### Statements of Cash Flow For the Years Ended December 31, 20YY and 20XX

Acct No.		20YY	20XX
	Reconciliation of net loss to net cash provided by (used in) operating activities:		
3250	Net loss	\$ (17,384)	\$ 29,880
	Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
6600	Depreciation	26,394	2,645
6610	Amortization	97	97
S1200-490	Decrease (increase) in tenant/member accounts receivable	(742)	(740)
S1200-500	Decrease (increase) in accounts receivable – other	(486)	47
S1200-520	Decrease (increase) in prepaid expense	626	352
S1200-530	Decrease (increase) in cash restricted for tenant security deposits		
S1200-540	Increase (decrease) in accounts payable	(17,169)	42,910
S1200-560	Increase (decrease) in accrued liabilities	-	-
S1200-570	Increase (decrease) in accrued interest payable		
S1200-580	Increase (decrease) in tenant security deposits	183	(1,578)
S1200-590	Increase (decrease) in prepaid revenue	33	649
S1200-600	Other adjustments to reconcile net loss to cash provided by operating activities	800	800
S1200-610	Net cash provided by (used in) operating activities	\$ (7,648)	\$ 75,062

## Supplementary Information

Sample Apartments  
Changes in Fixed Assets  
For the Year Ended December 31, 20YY Assets

	Balance Jan. 1, 20YY	Additions	Removals	Balance Dec. 31, 20YY
Land	\$ 53,000	-	-	\$ 53,000
Land Improvement	130,324	-	-	130,324
Buildings	1,602,686	-	-	1,602,686
Building Equipment-fixed	45,521	-	-	45,521
Furniture & Equipment	18,152	-	-	18,152
Maintenance Equipment	8,548	-	-	8,548
Site Improvements	223,689	-	-	223,689
Total	\$ 2,081,920			\$ 2,081,920
Accumulated Depreciation	1,846,332	\$ 26,394	-	1,872,726
Net Book Value	\$ 235,588	-	-	\$ 209,194

## Supplementary Information

Sample Apartments  
Schedule of Federal Financial Assistance  
For the Year Ended December 31, 20YY

<b>Program</b>	<b>Assistance Listing Number</b>	<b>Amount</b>
Department of Housing and Urban Development-Rent Supplements - Rental Housing for Lower Income Families	14,149	\$ 278,498

## Supplementary Information

### Sample Apartments Statement of Surplus Cash Computation For the Year Ended December 31, 20YY

<b>Surplus Cash Computation</b>		<b>For Year End</b>	
	Cash On Hand And In Banks	\$	4,237
	Reserve Funds For Operations (Per Annual Statement)		20,270
	Other Receivables		486
	Tenant Security Deposit		26,043
	Total Cash And Equivalents	\$	<u>51,036</u>
Less	Current Obligations		
	Accounts Payable And Accrued Expenses (Due Within 30 Days)	\$	1,760
	Delinquent Mortgage Payments		
	Accrued Mortgage Interest	2,764	
	Prepaid Hap (Unearned Hap)		
	Prepaid Rents (Unearned Income)		
	Delinquent Impound Payments		
	Tenant Security Deposits	18,079	
	Total Current Obligations	\$	<u>22,603</u>
Equals	Available Surplus Cash		\$ 28,433
	Accumulated Limited Distribution Calculation		
Add	Allowable Accumulated Limited Distribution Beginning Of The Year	\$	4,626
Less	Distributions Paid During The Year	4,626	
Add	Owner Distributions Allowed Under The Regulatory Agreement	4,626	
Equals	Accumulated Limited Distributions	\$	<u>4,626</u>
	Disposition Of Surplus Cash		
	Allowable Limited Distributions* (Subject To CalHFA Approval)		\$ 4,626
	* Lesser Of Surplus Cash Or Accumulated Limited Distributions Residual Receipts		\$ 23,807
	Reserve Fund For Operations (RFO) Calculation		
	Reserve Funds For Operations (Per Annual Statement)	\$	20,270
Less	Required RFO This Year (5% Of Year End Gross Potential Rent)	22,670	
Equals	RFO Shortage	<u>2,400</u>	
Less	RFO Payment - Remit To CalHFA		\$ 2,400
	Earned Surplus Calculation		
Less	Reserve Funds For Operations (Per Annual Statement)		\$ 20,270
	Earned Surplus Amount (Remit To CalHFA)		<u><u>\$ 1,137</u></u>

## Supplementary Information

### Cash

Unrestricted Cash Operating Accounts	
Cash in office (petty cash)	\$ 600
Bank of America (general checking)	3,637
Total unrestricted cash	<u>\$ 4,237</u>
Restricted Cash Accounts	
Bank of America (tenant deposits)	\$ 26,043
CalHFA (Tax and insurance impounds)	21,676
CalHFA (Reserve fund for operations)	20,270
CalHFA (Reserve for replacement)	69,426
Total restricted cash	<u>\$ 137,415</u>

### Accounts Payable

Accounts payable consists of amounts payable to suppliers, which are due within 30 days of year-end.

### Gross Potential Rents

Gross potential rent includes:

Tenants	\$ 157,632
Housing assistance payments	278,498
Employee unit	14,448
Vacancy loss	2,409
Bad Debt	414
Total gross potential rent	<u>\$ 453,401</u>

### Management Fee

The term of the most recent management agreement expired on August 7, 20YY. However, the agreement states that upon expiration of the term of the contract, if not otherwise renewed, it shall be deemed to continue on a month-to-month basis.

The management fee authorized by CalHFA for 20YY is as follows:

12 x \$2,948 monthly fee	<u>\$ 35,376</u>
--------------------------	------------------

## Other

Sample Apartments  
Management Agent Certification  
For The Year Ended December 31, 20YY

*Audits submitted to HCD and CalHFA must be signed and dated*

I hereby certify that I have examined the accompanying financial statements and supplementary information of Sample Apartments Company, as of and for the year ended December 31, 20YY, and to the best of my knowledge and belief, the same is complete and accurate.

*Sign Name*

---

AM Management Company  
Sign Name, President

2/15/20ZZ

---

Date

## Other

Sample Apartments Company  
Partner's Certification  
For The Year Ended December 31, 20YY

*Audits submitted to HCD and CalHFA must be signed and dated*

We hereby certify that we have examined the accompanying financial statements and supplementary data of Sample Apartments Company as of and for the year ended December 31, 20YY and to the best of our knowledge and belief, these financial statements and data are complete and accurate.

<i>Sign Name</i>	President	2/15/20ZZ
_____	_____	_____
Name	Title	Date

<i>Sign Name</i>	CFO	2/15/20ZZ
_____	_____	_____
Name	Title	Date

Federal Identification #94-xxxxxxx



### **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**

The Partners of Sample Apartments Company  
City, 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 Sample Apartments, L.P., which comprise the balance sheet as of December 31, 2022, and the related statements of operations, changes in partners' deficit and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 28, 2022.

#### Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Sample Apartments Company, L.P.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sample Apartments Company, L.P.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Sample Apartments Company, L.P.'s internal control.

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

## Other

### Report on Compliance and Other Matters

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

### Purpose of This Report

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

Certified Public Accountants,

City, California

February 15, 20ZZ

### Summary of Audit Findings and Recommendations For the Year Ended December 31, 20YY

#### Status of Prior Year Findings and Recommendations:

There were no findings and recommendations reported in the December 31, 20XX financial statements.

#### Findings and Recommendations:

1. Finding: During the audit of tenant files, the auditor noted two (2) instances where Sample Apartments did not perform background checks on potential tenants as required by the Department of HUD.

Recommendation: We recommend background checks be performed on all potential tenants and retained as a part of the tenant file.

Management Response: The management policy is to complete background checks, prior to move-in, on all applicants. Any missing background checks may have been in files of very long-term residents, move-ins prior to HUD requirement. However, management will increase oversight to ensure all background checks in the future are completed.

# Appendix C: Bifurcated Schedules

SUN COURT APARTMENTS, L.P.  
BIFURCATED SCHEDULES OF OPERATING REVENUES  
YEARS ENDED DECEMBER 31, 20YY AND 20XX

		20YY			20XX			
		20 Units	60 Units	80 Units	20 Units	60 Units	80 Units	
		COSR Assisted	Other	Total	COSR Assisted	Other	Total	
Actual or Proration								
Rent revenue:								
5120	Rent revenue – gross potential	Actual	\$ 108,926	\$ 749,551	\$ 858,477	\$ 107,843	\$ 721,406	\$ 829,249
5121	Tenant assistance payments	Actual	24,326	55,085	79,411	23,467	40,219	63,686
5140	Rent revenue – stores and commercial		-	-	-	-	-	-
5170	Garage and parking spaces		-	-	-	-	-	-
5180	Flexible subsidy revenue		-	-	-	-	-	-
5190	Miscellaneous rent revenue	Actual	-	64	64	-	-	-
5100T	Total rent revenue		133,252	804,700	937,952	131,310	761,625	892,935
Vacancies:								
5220	Apartments	Actual	4,012	2,416	6,428	10,892	2,067	12,959
5240	Stores and commercial		-	-	-	-	-	-
5250	Rental concessions		-	-	-	-	-	-
5270	Garage and parking space		-	-	-	-	-	-
5290	Misc. tenant assistance subsidy adjustment		-	-	-	-	-	-
5200T	Total vacancies		4,012	2,416	6,428	10,892	2,067	12,959
5152N	Net rental revenue		129,240	802,284	931,524	120,418	759,558	879,976

# Appendix C: Bifurcated Schedules

SUN COURT APARTMENTS, L.P.  
BIFURCATED SCHEDULES OF OPERATING REVENUES  
YEARS ENDED DECEMBER 31, 20YY AND 20XX

		20YY			20XX		
		20 Units	60 Units	80 Units	20 Units	60 Units	80 Units
		Actual or Proration	COSR Assisted	Other	Total	COSR Assisted	Other
Financial revenue:							
5410	Financial revenue – project operations	54	163	217	66	196	262
5430	Revenue from investments – residual receipts	-	-	-	-	-	-
5440	Revenue from investments – replacement reserve	144	431	575	107	321	428
5490	Revenue from investments – miscellaneous	178	535	713	103	308	411
5400T	Total financial revenue	Proration 376	1,129	1,505	276	825	1,101
Other revenue:							
5910	Laundry and vending revenue	3,183	9,548	12,731	2,597	7,791	10,388
5920	Tenant charges	13	37	50	13	37	50
5990	Miscellaneous revenue	188	562	750	181	543	724
5900T	Total other revenue	Proration 3,384	10,147	13,531	2,791	8,371	11,162
	Total revenue	133,000	813,560	946,560	123,485	768,754	892,239

# Appendix C: Bifurcated Schedules

SUN COURT APARTMENTS, L.P.  
BIFURCATED SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED DECEMBER 31, 20YY AND 20XX

*Proration: 20 Assisted units/80 Total units = 0.25; see loan docs for account eligibility in COSR and annuity calculations*

		20YY			20XX			
		20 Units	60 Units	80 Units	20 Units	60 Units	80 Units	
		Actual or Proration	COSR Assisted	Other	Total	COSR Assisted	Other	Total
Administrative expenses:								
6203	Conventions and meetings	914	2,742	3,656	423	1,268	1,691	
6204	Management consultants	-	-	-	-	-	-	
6210	Advertising and marketing	-	-	-	-	-	-	
6250	Other renting expenses	206	619	825	235	704	939	
6310	Office salaries	19,725	59,174	78,899	31,120	93,359	124,479	
6311	Office expenses	2,104	6,313	8,417	2,954	8,860	11,814	
6312	Office or model apartment rent	-	-	-	-	-	-	
6320	Management fee	12,879	38,637	51,516	12,402	37,206	49,608	
6330	Manager or superintendent salaries	-	-	-	-	-	-	
6331	Administrative rent-free unit	2,520	7,560	10,080	2,520	7,560	10,080	
6340	Legal expense – project	-	-	-	-	-	-	
6350	Audit and tax expense	3,050	9,150	12,200	2,950	8,850	11,800	
6351	Bookkeeping fees/accounting services	1,511	4,531	6,042	1,511	4,531	6,042	
6370	Bad debts	-	-	-	-	-	-	
6390	Miscellaneous administrative expenses	2,957	8,870	11,827	3,860	11,579	15,439	
6263T	Total administrative expenses	Proration	45,866	137,596	183,462	57,975	173,917	231,892

# Appendix C: Bifurcated Schedules

		20YY			20XX		
		20 Units	60 Units	80 Units	20 Units	60 Units	80 Units
Actual or Proration		COSR Assisted	Other	Total	COSR Assisted	Other	Total
Utilities expenses:							
6450	Electricity	2,672	8,015	10,687	2,259	6,778	9,037
6451	Water	10,196	30,586	40,782	11,306	33,917	45,223
6452	Gas	5,788	17,364	23,152	4,666	13,996	18,662
6453	Sewer	8,164	24,493	32,657	8,729	26,185	34,914
6400T	Total utilities expense	Proration 26,820	80,458	107,278	26,960	80,876	107,836
Operating and maintenance expenses:							
6510	Payroll	7,241	21,724	28,965	7,805	23,415	31,220
6515	Supplies	2,254	6,761	9,015	5,829	17,486	23,315
6520	Contracts	11,527	34,581	46,108	17,932	53,794	71,726
6521	Operating and maintenance rent-free unit	-	-	-	-	-	-
6525	Garbage and trash removal	12,150	36,450	48,600	11,257	33,770	45,027
6530	Security payroll/contract	-	-	-	-	-	-
6531	Security rent-free unit	-	-	-	-	-	-
6546	Heating/cooling repairs and maintenance	451	1,354	1,805	-	-	-
6548	Snow removal	-	-	-	-	-	-
6570	Vehicle and maintenance equipment operation and repairs	1,378	4,132	5,510	1,258	3,774	5,032
6580	Lease expense	-	-	-	-	-	-
6590	Misc. operating and maint. expenses	9,340	28,020	37,360	7,974	23,921	31,895
6500T	Total operating and maint. expenses	Proration 44,341	133,022	177,363	52,055	156,160	208,215

# Appendix C: Bifurcated Schedules

		20YY			20XX		
		20 Units	60 Units	80 Units	20 Units	60 Units	80 Units
Actual or Proration		COSR Assisted	Other	Total	COSR Assisted	Other	Total
Taxes and insurance:							
6710	Real estate taxes	767	2,300	3,067	806	2,416	3,222
6711	Payroll taxes	2,166	6,498	8,664	3,090	9,271	12,361
6720	Property and liability insurance (hazard)	8,804	26,413	35,217	7,781	23,343	31,124
6721	Fidelity bond insurance	-	-	-	-	-	-
6722	Workers' compensation	784	2,351	3,135	1,125	3,374	4,499
6723	Health ins. and other employee benefits	7,110	21,328	28,438	10,585	31,755	42,340
6790	Misc. taxes, licenses, permits and insurance	200	600	800	-	-	-
6700T	Total taxes and insurance	Proration 19,831	59,490	79,321	23,387	70,159	93,546
Financial expenses:							
6820	Interest on mortgage (or bonds) payable	-	55,617	55,617	-	58,296	58,296
6825	Interest on other mortgages	-	19,131	19,131	-	19,131	19,131
6830	Interest on notes payable (long term)	-	-	-	-	-	-
6840	Interest on notes payable (short term)	-	-	-	-	-	-
6850	Mortgage insurance premium/service charge	-	-	-	-	-	-
6890	Misc. financial expenses (see details)	-	-	-	-	-	-
6800T	Total financial expenses	-	74,748	74,748	-	77,427	77,427



# Appendix C: Bifurcated Schedules

		20YY			20XX		
		20 Units	60 Units	80 Units	20 Units	60 Units	80 Units
Actual or Proration		COSR Assisted	Other	Total	COSR Assisted	Other	Total
	Supportive services costs: <i>(break out within "miscellaneous account detail")</i>						
6990	Supportive services costs (see details)	22,093	66,278	88,371	1,633	4,897	6,530
6900T	Total supportive services costs	Proration 22,093	66,278	88,371	1,633	4,897	6,530
6000	Total cost of operations before depreciation	158,951	551,592	710,543	162,010	563,436	725,446
5060	Profit (loss) before depreciation	(25,951)	261,968	236,017	(38,525)	205,318	166,793
	Depreciation and amortization expenses:						
6600	Depreciation expenses	-	406,024	406,024	-	402,359	402,359
6610	Amortization expense	-	468	468	-	468	468
5060N	Operating profit (loss)	(25,951)	(144,524)	(170,475)	(38,525)	(197,509)	(236,034)
	<b>NET ENTITY EXPENSES</b>						
	Entity (revenue) and expenses:						
7120	Legal expenses	-	-	-	-	-	-
7141	Interest on notes payable	-	-	-	-	-	-
7142	Interest on mortgage payable	-	205,924	205,924	-	205,924	205,924
7190	Other expenses (see details)	-	34,294	34,294	-	34,073	34,073
7100T	Net entity expenses	-	240,218	240,218	-	239,997	239,997
3250	Net loss	\$ (25,951)	\$(384,742)	\$(410,693)	\$ (38,525)	\$(437,506)	\$(476,031)

# Appendix C: Bifurcated Schedules

SUN COURT APARTMENTS, L.P.  
BIFURCATED SCHEDULES OF MISCELLANEOUS ACCOUNT DETAILS  
YEARS ENDED DECEMBER 31, 20YY AND 20XX

*Proration: 20 Assisted units/80 Total units = 0.25; see loan docs for account eligibility in COSR and annuity calculations*

*Must provide clear details; do not use "other" or "Misc."*

	20YY			20XX			
	20 Units	60 Units	80 Units	20 Units	60 Units	80 Units	
	Actual or Proration	COSR Assisted	Other	Total	COSR Assisted	Other	Total
<b>Miscellaneous administrative expenses (Account 6390):</b>							
Hospitality		105	313	418	145	436	581
Tenant temporary relocation		98	292	390	-	-	-
Occupancy service fee		1,193	3,577	4,770	1,193	3,577	4,770
Bank charges		17	49	66	14	40	54
Internet service		440	1,318	1,758	414	1,240	1,654
Computer expenses		1,057	3,172	4,229	1,478	4,435	5,913
Cable TV		49	147	196	617	1,850	2,467
Total misc. administrative expenses (6390)	Proration	\$ 2,959	\$ 8,868	\$ 11,827	\$ 3,861	\$ 11,578	\$ 15,439
<b>Misc. operating and maintenance expenses (Account 6590):</b>							
Replacements		2,019	6,058	8,077	4,274	12,822	\$17,096
Security system services		4,657	13,972	18,629	1,224	3,672	4,896
Equipment rental		1,651	4,954	6,605	1,555	4,663	6,218
Pest control		1,012	3,037	4,049	921	2,764	3,685
Total misc. operating and maint. expenses (6590)	Proration	\$ 9,339	\$ 28,021	\$ 37,360	\$ 7,974	\$ 23,921	\$ 31,895

# Appendix C: Bifurcated Schedules

Miscellaneous supportive services costs (account 6990):  
*all of the following four expense line categories must be shown  
and used for all Account 6990 expenses*

	20YY			20XX		
	20 Units	60 Units	80 Units	20 Units	60 Units	80 Units
	COSR Assisted	Other	Total	COSR Assisted	Other	Total
Supportive services staff supervisor salaries	-	-	-	-	-	-
On-site supportive services coordinator salaries and benefits	22,061	66,184	88,245	-	-	-
On-site other supportive services staff salaries	-	-	-	-	-	-
Supportive services administrative overhead	32	94	126	1,633	4,897	6,530
<b>Total supportive services costs (6990)</b>	<b>Proration \$ 22,093</b>	<b>\$ 66,278</b>	<b>\$ 88,371</b>	<b>\$ 1,633</b>	<b>\$ 4,897</b>	<b>\$ 6,530</b>

Other expenses (Account No. 7190):

Ground lease	-	1	1	-	1	1
Asset management fee	-	41,321	41,321	-	40,117	40,117
Partnership management fee	-	8,369	8,369	-	8,125	8,125
Forgiveness of debt					(265,000)	(265,000)
<b>Total Other expenses (7190)</b>	<b>-</b>	<b>\$ 49,691</b>	<b>\$ 49,691</b>	<b>\$ -</b>	<b>\$(216,757)</b>	<b>\$(216,757)</b>

# Appendix C: Bifurcated Schedules

## BIFURCATED COMPUTATION OF EXCESS/DISTRIBUTABLE CASH YEARS ENDED DECEMBER 31, 20YY AND 20XX

	20YY Total Project	20YY COSR Assisted	20XX Total Project	20XX COSR Assisted
Operating income				
Total income	\$ 946,560	\$ 133,000	\$ 892,239	\$ 123,485
Less: interest earned on reserves	(1,288)	(322)	(839)	(210)
Adjusted operating income	945,272	132,678	891,400	123,275
Operating expenses - (exclude financial expenses)	635,795	158,951	648,019	162,010
Adjusted net income:	309,477	(26,273)	243,381	(38,735)
Other activities:				
Deposits into replacement reserve	(21,204)	(5,301)	(21,204)	(5,301)
Debt service – CalHFA loan	(105,361)	-	(105,360)	-
Debt service – HCD NPLH interest (.42%)	(19,131)	(19,131)	(19,131)	(19,131)
Supportive Services expense in excess of limits			-	-
Withdrawals from replacement reserve (expensed)			8,736	-
Purchase of property and equipment			(67,946)	-
Withdrawal from reserve - subsequent to year-end <sup>1</sup>			67,946	-
Total other activities	(145,696)	(24,432)	(136,959)	(24,432)
Excess/distributable cash	\$ 163,781	\$ (50,705)	\$ 106,422	\$ (63,167)
Asset management / partnership management fee <sup>2</sup>	\$ 36,878		\$ 35,631	
Deferred developer fee (fully paid as of 2016)	\$ -		\$ -	

## Appendix C: Bifurcated Schedules

	20YY Total Project	20YY COSR Assisted	20XX Total Project	20XX COSR Assisted
Cash available for distribution:	\$ 126,903		\$ 70,791	
Borrower distribution per Regulatory Agreement (50%)	\$ 63,452		\$ 35,396	
Residual receipts distributions towards debt service (50%)				
HCD (NPLH loan) - residual receipts (65.71%)	41,694		23,258	
City of San Diego - residual receipts (28.57%)	18,128		10,112	
Housing Trust San Diego - residual receipts (5.72%)	3,629		2,025	
Total uses	\$ 126,903		\$ 70,791	

<sup>(1)</sup> Subsequent withdrawals from the replacement reserve are intended to be made to partially cover the capitalized expenditures of \$67,946 from 20XX. As of December 31, 20YY, the withdrawal has not yet been made but management still plans to withdraw the amount in 20ZZ.

<sup>(2)</sup> Per the HCD NPLH Regulatory Agreement the asset management fee is limited. For 20YY the limit was \$36,878 and for 20XX was \$35,631. Per UMR §8314(a)(1)(B)1 the fee limit increases 3.5% each year.

# Appendix D: Sample Auditor Report 1

## Organization-wide audit; standalone HCD/CalHFA project financial statements also issued

### INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
SD Housing

#### **Report on the Audit of the HCD/CalHFA Financial Statements**

##### Opinion

We have audited the balance sheets as of December 31, 20YY and 20XX, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to these HCD/CalHFA financial statements of SD Housing, a California nonprofit public benefit corporation, as they pertain to Sun Court Apartments, CalHFA Project No. 03-333-N and HCD Contract No. 02-NPLH-9999 (collectively the "HCD/CalHFA financial statements").

In our opinion, the HCD/CalHFA financial statements present fairly, in all material respects, the financial position of SD Housing, a California nonprofit public benefit corporation, as they pertain to Sun Court Apartments, CalHFA Project No. 03-333-N and HCD Contract No. 02-NPLH-9999, as of December 31, 20YY and 20XX, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

##### Basis for Opinion

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

## Responsibilities of Management for the HCD/CalHFA Financial Statements

Management is responsible for the preparation and fair presentation of the HCD/CalHFA financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the HCD/CalHFA financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about SD Housing's ability to continue as a going concern within one year after the date that the HCD/CalHFA financial statements are available to be issued.

## Auditor's Responsibilities for the Audit of the HCD/CalHFA Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the HCD/CalHFA financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the HCD/CalHFA financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SD Housing's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the HCD/CalHFA financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about SD Housing's ability to continue as a going concern for a reasonable period of time.

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

### Other Matter

The HCD/CalHFA financial statements have been prepared without including the complete financial statements of SD Housing as of and for the years ended December 31, 20YY and 20XX. We have audited, in accordance with GAAS, the financial statements of SD Housing as of and for the years ended December 31, 20YY and 20XX, and our report thereon, dated March 28, 20ZZ, expressed an unmodified opinion on those financial statements.

### Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the HCD/CalHFA financial statements. The accompanying supplementary information, including the supplementary information as required by Audited Financial Statement Handbook for Multifamily Rental Housing of the California Department of Housing and Community Development and the California Housing Finance Agency, is presented for purposes of additional analysis, and is not a required part of the HCD/CalHFA 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 HCD/CalHFA financial statements. The information has been subjected to the auditing procedures applied in the audit of the HCD/CalHFA financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the HCD/CalHFA financial statements or to the HCD/CalHFA financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated, in all material respects, in relation to the HCD/CalHFA financial statements as a whole.

### Other Reporting Required by Government Auditing Standards and Other Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued our report dated March 28, 20ZZ on our consideration of SD Housing'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 SD Housing'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 SD Housing's internal control over financial reporting and compliance.

March 28, 2022  
Certified Public Accountants  
City, California

# Appendix E: Sample Auditor Report 2

## No organization-wide audit; only HCD/CalHFA standalone project financial statements issued

### INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
SD Housing

#### **Report on the Audit of the HCD/CalHFA Financial Statements**

##### Opinion

We have audited the balance sheets as of December 31, 20YY and 20XX, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to these HCD/CalHFA financial statements of SD Housing, a California nonprofit public benefit corporation, as they pertain to Sun Court Apartments, CalHFA Project No. 03-333-N and HCD Contract No. 02-NPLH-9999 (collectively the "HCD/CalHFA financial statements").

In our opinion, the HCD/CalHFA financial statements present fairly, in all material respects, the financial position of SD Housing, a California nonprofit public benefit corporation, as they pertain to Sun Cove Apartments, CalHFA Project No. 03-333-N and HCD Contract No. 02-NPLH-9999, as of December 31, 20YY and 20XX, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

##### Basis for Opinion

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

## Emphasis of Matter — Basis of Accounting

We draw attention to Note X to the HCD/CalHFA financial statements, which describes that the accompanying HCD/CalHFA financial statements were prepared for the purpose of complying with the rules and regulations of the Audited Financial Statement Handbook for Multifamily Rental Housing of the California Department of Housing and Community Development and the California Housing Finance Agency and are not intended to be a complete presentation of SD Housing's financial position, changes in net assets and its cash flows. As a result, the HCD/CalHFA financial statements may not be suitable for another purpose. Our opinion is not modified with respect to this matter.

## Responsibilities of Management for the HCD/CalHFA Financial Statements

Management is responsible for the preparation and fair presentation of the HCD/CalHFA financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the HCD/CalHFA financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about SD Housing's ability to continue as a going concern within one year after the date that the HCD/CalHFA financial statements are available to be issued.

## Auditor's Responsibilities for the Audit of the HCD/CalHFA Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the HCD/CalHFA financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the HCD/CalHFA financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SD Housing's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the HCD/CalHFA financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about SD Housing's ability to continue as a going concern for a reasonable period of time.
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the HCD/CalHFA financial statements. The accompanying supplementary information, including the supplementary information as required by Audited Financial Statement Handbook for Multifamily Rental Housing of the California Department of Housing and Community Development and the California Housing Finance Agency, is presented for purposes of additional analysis, and is not a required part of the HCD/CalHFA 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 HCD/CalHFA financial statements. The information has been subjected to the auditing procedures applied in the audit of the HCD/CalHFA financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the HCD/CalHFA financial statements or to the HCD/CalHFA financial statements themselves, and other additional procedures in accordance with

auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated, in all material respects, in relation to the HCD/CalHFA financial statements as a whole.

#### Other Reporting Required by Government Auditing Standards and Other Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued our report dated March 28, 20ZZ on our consideration of SD Housing'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 SD Housing'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 SD Housing's internal control over financial reporting and compliance.

March 28, 20ZZ  
Certified Public Accountants  
City, California