

# Audited Financial Statements Handbook For Multifamily Rental Housing

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

**LAST REVISED: OCTOBER 2016**



## Foreword

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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 and has been managed and developed by George Rodine and Michael Frost (HCD) and Janet Louie (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 particular HCD or CalHFA programs, regulations or operations.

HCD and CalHFA require auditors use the current HUD Chart of Accounts in the presentation of the audit supplementary information as the HCD and CalHFA databases utilize these HUD accounts.

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:

- <http://www.hcd.ca.gov/fa/amc/>
- <http://www.calhfa.ca.gov/multifamily/asset/>

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## Introduction

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### 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 statute 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 promissory note(s), deed(s) of trust and other relevant regulatory information. Once obtained, the auditor is to 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 noncompliant financing arrangements must be disclosed.

### Programs

#### HCD programs covered under this Audit Handbook:

- Affordable Housing and Sustainable Communities (AHSC) Program
- 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
- Joe Serna, Jr. Farmworker Housing Grant Program (JSJFWHG)
- Mobilehome Park Resident Ownership Program (MPROP)
- 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)
- Rental Housing Construction Program (RHCP-Bond)
- Rental Housing Construction Program (RHCP-Original)

## Introduction (Cont.)

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- Special User Housing Rehabilitation Program (SUHRP)
- State Earthquake Rehabilitation Assistance Program (SERA)
- Transit Oriented Development Housing Program (TOD)
- New or Restructured Programs/Projects that require project audits
- Veteran Housing and Homeless Prevention Program (VHHP)

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

- 80/20 projects 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) as HAP contract administration
- Rental Housing Construction Program (RHCP)
- Mental Health Services Act Housing Program (MHSA)

## Owner's Responsibilities

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### **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 for 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 in accordance with the requirements of this Audit Handbook.

## Owner's Responsibilities (Cont.)

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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 IG 2000.04 and Office of Management and Budget (OMB) 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. Two separate sample financial statements are provided: the first labeled "APPENDIX A - Sample Financial Statement for HCD or CalHFA Projects" is for all projects that do not have project-based Section 8 contracts administered by CalHFA; the second, labeled "APPENDIX B – Sample Financial Statement for CalHFA Section 8 Projects Only" should be used as a guide only for projects with CalHFA administered HUD Section 8 contracts. Although the auditor expresses an opinion on the financial statements, the financial statements themselves are the responsibility of the owner. It is the owner's responsibility to maintain adequate books and records and examine or review the financial statements before they are sent to HCD or CalHFA.

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. 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. The management agent, if applicable, must certify to the owner (see pages A-27 to A-28, B-27 to B-28).

### **Delegation of Responsibility to Agent**

The owner may delegate the responsibility for the maintenance of the project accounting records to the management agent. 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 his/ her 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.

## Owner's Responsibilities (Cont.)

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### **The First Audit**

#### **Projects whose funding sources include equity from low-income housing tax credits**

The first audit is required within 90 days after the end of the fiscal year of the permanent loan closing. For HCD construction loans, the first audit is 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.

#### **Projects whose funding does not include equity from low-income housing tax credits**

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, as long as the audit does not exceed 18 months of operations. Thus, if the project does not have funding from low-income housing tax credits, and 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, only the separate operations of the HCD or CalHFA financed project are required to be shown as a separate financial statement including the project specific Notes to the Financial Statements and the Supplementary Information. For example, there may be a non-profit organization that provides other services or owns other projects. Such an organization may obtain an organization-wide audit but will nevertheless be required to prepare separate financial statements for the HCD or CalHFA financed project.

### **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

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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 or 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.

## Engagement Of The Auditor (Cont.)

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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

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### **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 IG 2000.04 and OMB Circular A-133, 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 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 in non-compliance with the Regulatory Agreement(s) or indications of waste, fraud, abuse, illegal expenditures and acts.

## Independent Auditor's Responsibilities (Cont.)

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3. Provide a schedule of audit findings as deemed appropriate (including resolutions of prior period findings), comments and recommendations.

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 Circular A-133, local government or other governmental organization, audits must be performed in accordance with the Single Audit Act of 1986, the OMB Circular A-133, Government Auditing Standards as well as their amendments and revisions that are periodically updated.

### 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 IG 2000.4 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 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.

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.

The first sample is labeled “APPENDIX A: Sample Financial Statement for HCD or CalHFA Projects” is for all projects that do not have project-based HUD Section 8 contracts. **As shown in the APPENDIX A Supplementary Information, the Schedule of Operations must be in comparative format and must use the current HUD chart of accounts (see pages A-20 to A-22) – refer to [HUD’s Account Definitions](#).**

The second sample is labeled “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. **As shown in the APPENDIX B Supplementary Information, the Schedule 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](#).**

The following financial statement notes and supplementary information are required:

1. Summary of Organization – include owner name and entity type, number of units, year project was constructed and nature of the agreements with HCD or CalHFA and others. **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 shown on Internal Revenue Service Form 8609. For tax credit projects that were placed in service prior to 2009, the month and year the earliest project was placed in service is sufficient.**
2. Significant Accounting Policies
  - a. Accounting Method
  - b. Cash and Concentrations of Credit Risk – the cash funds and separate bank accounts 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.
  - c. Accounts/Tenant Receivable – current amounts receivable (within 30 days), and amounts in excess of 30 days must be stated separately.
  - d. Capitalization Policy – report whether the project has a capitalization policy in place.
  - e. 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.

- f. Tenant and Other Income 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-20). Commercial income must be shown in Account #5140. Detail of revenue must be provided when the “Miscellaneous” HUD Operating Revenue Accounts total \$2,500 or greater.

**RHCP-Original Projects:** RHCP and market unit revenues and expenses must be shown separately in the supplementary information.

**MHSA Projects:** projects containing MHSA and market units must show the income from each separately in the supplementary information.

- g. Accounts Payable – current amounts payable (within 30 days), and amounts in excess of 30 days must be stated separately.
- h. 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.
- i. Operating Expenses – detail of expenditures must be provided when the “Miscellaneous” HUD Operating Expense Accounts total \$2,500 or greater.

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 management agent service contracted by the project and must not include partnership fees or similar fees paid to an owner entity.

Supportive Service Related Costs: if any supportive service costs are paid from project income, use HUD Accounts #6930 to 6990 – refer to [HUD’s Account Definitions](#). However, service coordinator salary and benefits must be reported separately within HUD Account #6390 using the applicable descriptor “Service Coordinator Salary and Benefits” (see page A-21). For most HCD and CalHFA funded projects per Regulations, supportive services costs other than service coordinator salary and benefits are not an eligible operating expense and must be paid by another funding source other than operating income. Typically such costs are paid by third party services agencies or by the owner. (Examples of supportive services costs include those for case management, mental health services, benefits counseling and advocacy, substance abuse counseling, health services, money management, independent living skills training, transportation, job counseling, child care, after-school programs, and parenting classes).

RHCP-Original Projects: a statement of expenses by assisted and non-assisted units is required within the supplementary information to enable HCD or CalHFA staff, as applicable, to determine the amount of supplementary annuity funds required. The project must establish an expense allocation method at project inception and continue this allocation throughout the term of the Regulatory Agreement.

MHSA Projects: a statement of expenses by MHSA vs. market units is required to determine the amount of Cost Operating Subsidy Revenue (COSR) funds required to be funded for the MHSA COSR units.

- j. HUD Account #7190 – detail of expenditures must be provided for this account regardless of the amount.
  - k. Subsequent Events – describe any material events that have occurred 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 prior to determining Net Cash Flow payments to HCD. 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 (see pages A-13 to A-14, footnote 3).**

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
  - 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
7. Mortgages/Notes Payable – interest rate, interest expense amount, maturity date, applicable mandatory payment amount, and beginning/ending principal and interest 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-24 to A-25). Timing difference exceptions related to Replacement Reserve withdrawals and capital purchases will be considered by HCD and CalHFA if clearly 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. Residual receipt payments should not be submitted to HCD and CalHFA until invoiced.
10. CalHFA administered Section 8 project 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-25). 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 90 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: <http://www.calhfa.ca.gov/multifamily/asset/forms/index.htm>

# APPENDIX A: Sample Financial Statement for HCD or CalHFA Projects

## **CA PROPERTY APARTMENTS, L.P. (A California Limited Partnership)**

HCD Contract Numbers: 01-FWHG-1111 & 03-MHP-9999  
and  
CalHFA Project Number: #03333N

### **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

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# Independent Auditor's Report

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The Partners of  
CA Property Apartments  
City, California

## Report on the Financial Statements

We have audited the accompanying financial statements of CA Property Apartments, L.P., a California limited partnership, HCD Contract Numbers 01-FWHG-1111 and 03-MHP-9999 and CalHFA Project No. #03333N, which comprise the balance sheets as of December 31, 20YY and 20XX, and the related statements of operations, changes in partners' capital, and cash flows for the years then ended, and the related notes to the financial statements.

## Management's Responsibility for the Financial Statements

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

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the requirements 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*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## Independent Auditor's Report (Cont.)

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### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CA Property 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.

### Report on 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-20 through A-26, as required by 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 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.

### Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards and the requirements 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*, we have also issued a report dated February 1, 20ZZ on our consideration of CA Property Apartments, L.P.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and the requirements 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*, in considering CA Property Apartments, L.P.'s internal control over financial reporting and compliance.

February 13, 20ZZ

Certified Public Accountants

City, California  
Date

CA Property Apartments, L.P.

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

<b>ASSETS</b>	<b>20YY</b>	<b>20XX</b>
Investment in real estate:		
Land	\$2,084,544	\$2,084,544
Building and improvements	17,762,845	17,759,796
Furniture, fixtures and equipment	460,441	457,743
Less: accumulated depreciation	(3,002,266)	(2,507,374)
Net investment in real estate	17,305,564	17,794,709
Other assets:		
Cash	142,900	102,419
Rent receivable	-	305
Restricted deposits (Note 3):		
Replacement reserve	111,072	90,429
Operating reserve	180,806	179,996
CalHFA impound deposits	22,107	25,383
Tenant security deposits	69,373	69,262
Prepaid expenses	8,037	8,906
Deferred costs – net (Note 4)	84,815	92,083
Total assets	\$17,924,674	\$18,363,492
<b>Liabilities And Partners' Capital</b>		
Liabilities:		
Notes payable (Note 6)	\$11,662,176	\$11,791,927
Accounts payable and accrued expenses	10,479	11,028
Related-party payable (Note 5)	353,452	404,027
Deferred revenue	43	19
Tenant security deposits	67,092	65,723
Interest payable (Note 6)	1,294,492	1,088,804
Total liabilities	13,387,734	13,361,528
Partners' capital	4,661,379	5,126,403
Syndication costs	(124,439)	(124,439)
Total partners' capital	4,536,940	5,001,964
Total liabilities and partners' capital	\$17,924,674	\$18,363,492

The accompanying notes are an integral part of these financial statements

CA Property Apartments, L.P.

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

	<u>20YY</u>	<u>20XX</u>
Income:		
Gross potential rent	\$812,075	\$795,725
Less: vacancies and concessions	(12,570)	(14,934)
	<u>799,505</u>	<u>780,791</u>
Interest income	1,511	1,856
Other income:		
Laundry and vending income	6,662	9,755
Other tenant charges	3,990	4,531
Miscellaneous	395	610
Total income	<u>812,063</u>	<u>797,543</u>
Operating expenses:		
Administrative	132,457	148,585
Utilities	88,306	85,089
Operating and maintenance	112,149	133,333
Taxes and insurance	56,484	68,940
Total operating expenses	<u>389,396</u>	<u>435,947</u>
Net operating income	<u>422,667</u>	<u>361,596</u>
Financial, partnership and other expenses:		
Depreciation	494,892	492,494
Amortization	7,268	7,268
Interest (Note 6)	345,312	348,083
Asset management fee (Note 5)	12,000	12,000
Partnership management fee (Note 5)	22,294	22,073
Density Bonus Program monitoring fee (County monitoring Fee)	5,925	5,925
Total financial, partnership and other expenses	<u>887,691</u>	<u>887,843</u>
Net loss	<u>\$(465,024)</u>	<u>\$(526,247)</u>

The accompanying notes are an integral part of these financial statements

CA Property Apartments, L.P.

**Statements Of Changes In Partners' Capital  
For The Years Ended December 31, 20YY and 20XX**

	<b>General Partner<sup>a</sup></b>	<b>Administrative Limited Partner<sup>b</sup></b>	<b>Investor Limited Partner<sup>c</sup></b>	<b>Syndication Costs</b>	<b>Total</b>
Partnership interest	0.01%	0.00%	99.99%	-	100.00%
Balance, December 31, 20WW	\$805,541	-	\$4,847,109	\$(124,439)	\$5,528,211
Net Loss for 20YY	(103)	-	(526,144)	-	(526,247)
Balance, December 31, 20YY	805,438	-	4,320,965	(124,439)	5,001,964
Net Loss for 20XX	(91)	-	(464,933)	-	(465,024)
Balance, December 31, 20XX	\$805,347	-	\$3,856,032	\$(124,439)	\$4,536,940

<sup>a</sup> GP Development Corporation

<sup>b</sup> Tax Credit Investor, Inc.

<sup>c</sup> ABC Tax Credit Fund

The accompanying notes are an integral part of these financial statements

CA Property Apartments, L.P.

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

	<b>20YY</b>	<b>20XX</b>
Cash Flow from operating activities:		
Rental receipts	\$801,092	\$783,782
Interest receipts	1,511	1,856
Other receipts	11,047	14,896
Total receipts	<u>813,650</u>	<u>800,534</u>
Administrative	(81,858)	(95,331)
Management fee	(49,824)	(48,372)
Utilities	(88,306)	(85,089)
Operating and maintenance	(110,995)	(124,943)
Taxes and insurance	(42,014)	(49,209)
Property insurance	(16,944)	(24,202)
Miscellaneous taxes and insurance	(800)	(800)
Interest	(139,624)	(142,382)
Asset management fee	(12,000)	(12,000)
Total disbursements	<u>(542,365)</u>	<u>(582,328)</u>
Net cash provided by operating activities	<u>271,285</u>	<u>218,206</u>
Cash flows from investing activities:		
Purchase of property and equipment	(5,747)	(25,737)
Net (increase) decrease in restricted deposits for reserves	(21,453)	1,892
Net cash used in investing activities	<u>(27,200)</u>	<u>(23,845)</u>
Cash flows from financing activities:		
Payment of developer fee	(73,853)	(8,817)
Payment of notes payable	(129,751)	(126,992)
Net cash used in financing activities	<u>(203,604)</u>	<u>(135,809)</u>
Net increase in cash	40,481	58,552
Cash, beginning of year	<u>102,419</u>	<u>43,867</u>
Cash, end of year	<u>\$142,900</u>	<u>\$102,419</u>

The accompanying notes are an integral part of these financial statements

CA Property Apartments, L.P.

**Statements Of Cash Flows**  
**For The Years Ended December 31, 20YY and 20XX**

	<u>20YY</u>	<u>20XX</u>
Cash flows from operating activities		
Net Loss	\$(465,024)	\$(526,247)
Reconciliation of net loss to net cash provided by operating activities:		
Depreciation	494,892	492,494
Amortization	7,268	7,268
(Increase) decrease in assets:		
Rent receivable	305	(166)
Impound deposits	3,276	6,655
Tenant security deposits – net	1,258	3,171
Prepaid expenses	869	6,390
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(549)	881
Related-party payable	23,278	22,073
Deferred revenue	24	(14)
Interest payable	205,688	205,701
Net cash provided by operating activities	<u>\$271,285</u>	<u>\$218,206</u>

The accompanying notes are an integral part of these financial statements

## Notes to Financial Statements

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CA Property Apartments, L.P.  
HCD Contract Numbers: 01-FWHG-1111 & 03-MHP-9999 and  
CalHFA Project Number: #03333N

### **Notes To Financial Statements For The Years Ended December 31, 20YY and 20XX**

#### **Note 1 – Organization And Nature Of Activities**

CA Property Apartments, L.P. (the Partnership) was formed in 20QQ to develop, own and operate an 80-unit apartment complex, for low- and moderate-income households in a City, California, and operates under the name of CA Property Apartments (the Project). The property was placed in service on September 4, 2010 and received a tax credit allocation (rent floor) on March 1, 2008.

The Project participates in the low-income housing tax credit program under Section 42 of the Internal Revenue Code. Various agreements dictate the maximum income levels of new tenants and also provide rent restrictions through 2066.

#### **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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

##### **Revenue Recognition**

Rental income is shown at its maximum gross potential. Vacancy loss is shown as a reduction in rental income. Rental units occupied by employees are included in rental income and as an expense of operations.

##### **Cash**

Cash is defined as cash in demand deposit accounts as well as cash on hand. Not included as cash are funds restricted as to their use, regardless of liquidity, such as tenant security deposits, replacement reserve, operating reserve, and CalHFA impound accounts. The Partnership occasionally maintains cash on deposit at a bank in excess of the Federal

## Notes to Financial Statements (Cont.)

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Deposit Insurance Corporation limit. The Partnership has not experienced any losses in such accounts.

### Accounts Receivable

Management has elected 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/Investment in Real Estate 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 permanent financing and tax credits for the Project. Deferred costs are stated at cost and amortized on a straight-line basis over the term of the mortgage and 10-year tax credit period.

The useful lives of the assets are estimated as follows:

Building and improvements	10 to 40 years
Furniture, fixtures and equipment	5 to 10 years
Permanent loan coats	30 years
Tax credit cost	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 estate to the future net undiscounted cash flow expected to be generated by the rental property, including 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.

### 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.

## Notes to Financial Statements (Cont.)

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### **Allocation of Partnership Income/Loss and Tax Credits**

The Partnership expects to generate low-income housing credits, which will be allocated in the same manner as the income or loss of 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 February 3, 20ZZ, the date on which the financial statements were available to be issued.

### **Note 3 – Restricted Deposits**

#### **Replacement Reserve**

The Partnership is required to maintain a reserve for replacement and repair of property and equipment in accordance with the lenders' regulatory agreements. The reserve is held by the California Housing Finance Agency and is required to be funded in an annual amount of \$27,960. The balance is held by CalHFA and expenditures are subject to the supervision and approval by CalHFA.

#### **Operating Reserve**

The Partnership is required to maintain an operating reserve to fund any shortfall that exists when operating expenses exceed operating income in accordance with the lenders' regulatory agreements. The reserve is held by the California Housing Finance Agency and was funded from capital contributions from Limited Partners in the amount of \$175,000. The balance is held by CalHFA and expenditures are subject to the supervision and approval by CalHFA.

#### **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.

## Notes to Financial Statements (Cont.)

### Tenant Security Deposits

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

### Note 4 – Deferred Costs

Deferred costs are summarized as follows

	20YY	20XX
Tax credit costs	\$45,480	\$45,480
Permanent loan costs	81,625	81,625
	127,105	127,105
Less: accumulated amortization	(42,290)	(35,022)
Total deferred costs	\$84,815	\$92,083

### Note 5 – Related Party Transactions

All payroll-related costs are paid by The GP Group Corporation and allocated to the Partnership based on actual results. Related-party transactions include the following fees and charges:

Payable/Paid to Description	Payable at Dec. 31, 20YY	20YY Expense (Payment)	Payable at Dec. 31, 20XX	20XX Expense (Payment)
<b>The GP Group Corporation</b>				
Property management fee (HUD Account # 6320) <sup>1</sup>	-	\$49,824	-	\$48,372
		(49,824)		(48,372)
Bookkeeping fee <sup>1</sup>	-	8,616	-	8,616
		(8,616)		(8,616)
Operating advances	984		-	
<b>The GP Development Corporation</b>				
Partnership management fee (HUD Account # 7190) <sup>2</sup>	128,040	22,294	105,746	22,073
Deferred development fee <sup>3</sup>	212,428	-	286,281	-
		(73,853)		(8,817)
<b>ABC Tax Credit Fund</b>				
Asset management fee(HUD Account # 7190) <sup>4</sup>	12,000	12,000	12,000	12,000
		(12,000)		(12,000)
Total	<u>\$353,452</u>		<u>\$404,027</u>	

## Notes to Financial Statements (Cont.)

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- <sup>1</sup> The Partnership entered into a management agreement with MA Management, an affiliate of The GP Group Corporation. The agreement provides for management and bookkeeping fees equal to the approved annual operating budget.
- <sup>2</sup> The Partnership shall pay a partnership management fee to the general partner, in an amount not to exceed \$25,000 per year. This partnership fee is not permitted as a priority payment and must be paid from the owner's allowable distribution. The term of the agreement shall terminate on December 19, 2069.
- <sup>3</sup> The Partnership shall pay the developer a development fee in an amount equal to \$2,000,000, which includes any fees paid to third parties that are treated as a development fee. Per the HCD MHP Regulatory Agreement, only a portion can be paid on a priority basis from operating cash flow/surplus cash. Of the \$212,428 Deferred Development Fee payable at December 31, 20YY, \$90,000 can be paid on a priority basis. The remaining amount must be paid from the owner's allowable distribution.
- <sup>4</sup> The Partnership shall pay an asset management fee to the Investor Limited Partner, in the amount of \$12,000 per year, which shall be payable out of operating cash flow/surplus cash.

## Notes to Financial Statements (Cont.)

### Note 6 – Notes Payables

Notes payable are secured by the property unless otherwise noted and summarized as follows:

	20YY		20XX	
	Interest Payable	Principal	Interest Payable	Principal
California Housing Finance Agency loan, in the original amount of \$1,985,000, bears simple interest at 5.5% per annum, with monthly payments of principal and interest in the amount of \$11,271, to be repaid in full by 2036. Interest expense was \$101,330 and \$103,141 for 20YY and 20XX, respectively.	\$8,372	\$1,826,728	\$8,527	\$1,860,491
Rural Community Assistance Corporation (RCAC) loan, in the original amount of \$2,300,000, bears simple interest at 1% per annum, with monthly payments of principal and interest in the amount of \$9,548, to be repaid in full by 2029. Interest expense was \$18,506 and \$19,466 for 20YY and 20XX, respectively.	1,505	1,806,603	1,585	1,902,591
Department of Housing and Community Development- Multifamily Housing Program loan (MHP loan), in the amount of \$4,655,357, accrues simple interest at 3% per annum, requires an annual payment of .42% of the outstanding principal balance for a period 29 years, at which time annual loan payments are required equal to the lesser of the accrued interest for the previous 12 month period or such amount determined by HCD. Annual payments can also be made subject to available net cash flow. The principal and unpaid accrued interest to be repaid in full by 2061. Interest expense was \$139,661 for both 20YY and 20XX.	640,705	4,655,357	520,597	4,655,357

## Notes to Financial Statements (Cont.)

	20YY		20XX	
	Interest Payable	Principal	Interest Payable	Principal
Department of Housing and Community Development (Serna loan), bears simple interest at 3% per annum. Annual payments are made subject to available net cash flow. The principal and unpaid accrued interest to be repaid in full by 2044. Interest expense was \$45,000 for both 20YY and 20XX.	328,192	1,500,000	283,192	1,500,000
County Community Development Commission HOME loan (CCDC HOME first loan), bears simple interest at 3% per annum. Annual payments are made subject to available net cash flow. The principal and unpaid accrued interest to be repaid in full by 2034. Interest expense was \$4,062 for both 20YY and 20XX.	30,450	135,400	26,388	135,400
County Community Development Commission (CCDC HOME second loan), bears simple interest at 3% per annum. Annual payments are made subject to available net cash flow. The principal and unpaid accrued interest to be repaid in full by 2035. Interest expense was \$1,490 for both 20YY and 20XX.	8,942	49,668	7,452	49,668
County Community Development Commission (CCDC first loan), bears simple interest at 3% per annum. Annual payments are made subject to available net cash flow. The principal and unpaid accrued interest to be repaid in full by 2058. Interest expense was \$15,000 for both 20YY and 20XX.	128,959	500,000	113,959	500,000

## Notes to Financial Statements (Cont.)

	20YY		20XX	
	Interest Payable	Principal	Interest Payable	Principal
County Community Development Commission (CCDC second loan), bears simple interest at 3% per annum. Annual payments are made subject to available net cash flow. The principal and unpaid accrued interest to be repaid in full by 2033. Interest expense was \$10,500 for both 20YY and 20XX.	92,026	350,000	81,526	350,000
County Community Development Commission (CCDC CDBG loan), bears simple interest at 3% per annum. Annual payments are made subject to available net cash flow. The principal and unpaid accrued interest to be repaid in full by 2061. Interest expense was \$9,763 for both 20YY and 20XX.	55,341	325,420	45,578	325,420
Affordable Housing Program loan, with JP Bank bears no interest. No annual payments are required and the total principal is to be repaid in full in 2036.	-	513,000	-	513,000
<b>Total</b>	<b>\$1,294,492</b>	<b>\$11,662,176</b>	<b>\$1,088,804</b>	<b>\$11,791,927</b>

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

20ZZ	\$132,619
20AA	135,605
20BB	138,714
20CC	141,953
20DD	145,329

## Note 7 – Commitments, Contingencies And Other Matters

### Indemnification Agreement

The GP Group Corporation, the general partner, agreed to indemnify the limited partner in the event of a reduction in projected tax benefits exceeding five percent.

## Notes to Financial Statements (Cont.)

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### Option Agreement

For entering into an indemnification agreement with the limited partner, the Partnership is granting GP Group Corporation an option to purchase the Project. The initial term of the option shall commence on the first day of the year following the end of the credit period and shall expire on the last day of the compliance period for the low-income housing tax credits for the Project. The additional term of the option shall commence on the first day after the end of the compliance period and shall expire on the last day of the eighteenth month after the end of the compliance period. The purchase price of the Project shall be the greater of the then fair market value of the Project or the assumption of the outstanding debt secured by deeds of trust on mortgages on the Project plus any other obligations of the owner and reimbursement of the limited partner's income taxes attributable to the purchase.

### Note 8 – Distribution Of Operating Cash Flow/Surplus Cash

Operating Cash Flow/Surplus Cash, as defined by the Regulatory Agreements and Partnership Agreement, is distributable as follows (note: restricted accounts have been fully funded for the current year as required):

1. To payment of the report year asset management fee (note: per the MHP HCD Regulatory Agreement, the sum of the asset management fee, partnership management fee and other similar fees paid on a priority basis from cash flow may not exceed \$12,000 per year).
2. To payment of unpaid deferred development fee limited by the MHP HCD Regulatory Agreement as a priority basis payment (prior to distributions).
3. 50% of the remaining excess cash to the owner as a distribution.
4. 50% of the remaining excess cash to be distributed for the debt service of the following loans:
  - a. 62% to debt service of the **HCD MHP** loan;
  - b. 20% to debt service of the **HCD Serna** loan;
  - c. 3% to debt service of the CCDC HOME first loan;
  - d. 1% to debt service of the CCDC HOME second loan;
  - e. 6% to debt service of the CCDC first loan;
  - f. 4% to debt service of the CCDC second loan; and
  - g. 4% to debt service of the CCDC CDBG loan.

## Notes to Financial Statements (Cont.)

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5. The remaining excess cash to be distributed as follows per the partnership agreement:
  - a. To payment of remaining accrued and unpaid asset management fee;
  - b. To payment of remaining accrued and unpaid partnership management fee;
  - c. To payment of any operating loans; and
  - d. To prepay either the HCD or MHP loans at the discretion of the general partner.
  - e. Thereafter, to the partners in proportion to their respective percentage interests in the Partnership.

## Supplementary Information

CA Property Apartments, L.P.

### Schedules of Operating Revenues For the Years Ended December 31, 20YY and 20XX

Schedule of Operating Revenues		20YY	20XX
<b>Rent Revenue</b>			
5120	Rent Revenue- Gross Potential	\$789,911	\$770,926
5121	Tenant Assistance Payments	22,164	24,799
5140	Rent Revenue- Stores & Commercial	-	-
5170	Rent Revenue- Garage & Parking	-	-
5180	Flexible Subsidy Revenue	-	-
5190	Misc. Rent Revenue <i>(if over \$2,500, detail is required)</i>	-	-
5100T	Total Rent Revenue	<u>\$812,075</u>	<u>\$795,725</u>
<b>Vacancies</b>			
5220	Apartments	\$12,570	\$14,934
5240	Stores & Commercial	-	-
5250	Rental Concessions	-	-
5270	Garage & Parking Spaces	-	-
5290	Misc. <i>(if over \$2,500, detail is required)</i>	-	-
5200T	Total Vacancies	<u>\$12,570</u>	<u>\$14,934</u>
5152N	Net Rental Revenue (Rent Revenue Less Vacancies)	<u>\$799,505</u>	<u>\$780,791</u>
<b>Financial Revenue</b>			
5410	Financial Revenue- Project Operations	\$111	\$140
5430	Revenue from Investments- Residual Receipts	-	-
5440	Revenue from Investments- Replacement Reserves	450	537
5490	Revenue from Investments- Misc. <i>(if over \$2,500, detail is required)</i>	950	1,179
5400T	Total Financial Revenue	<u>\$1,511</u>	<u>\$1,856</u>
<b>Other Revenue</b>			
5910	Laundry & Vending Revenue	\$6,662	\$9,755
5920	Tenant Charges	3,990	4,531
5990	Misc. Revenue <i>(if over \$2,500, detail is required)</i>	395	610
5900T	Total Other Revenue	<u>\$11,047</u>	<u>\$14,896</u>
5000T	Total Revenue	<u>\$812,063</u>	<u>\$797,543</u>

## Supplementary Information (Cont.)

CA Property Apartments, L.P.

**Schedules of Operating Expenses**  
**For the Years Ended December 31, 20YY and 20XX**

<b>Schedule of Operating Expenses</b>		<b>20YY</b>	<b>20XX</b>
<b>Administrative Expenses</b>			
6203	Conventions & Meetings	-	-
6204	Management Consultants	-	-
6210	Advertising & Marketing	-	-
6250	Other Renting Expenses	-	-
6310	Office Salaries	\$8,738	\$10,714
6311	Office Expenses	3,787	9,582
6312	Office or Model Apartment Rent	-	-
6320	Management Fee	49,824	48,372
6330	Manager or Superintendent Salaries	32,753	43,474
6331	Administrative Rent Free Unit	13,848	13,428
6340	Legal Expense - Project	-	7
6350	Audit Expense	8,900	7,900
6351	Bookkeeping Fees/Accounting Services	8,616	8,616
6370	Bad Debts	-	491
6390	Misc. Administrative Expenses <i>(if over \$2,500, detail is required)</i>		
	6390-010 Description: Service Coordinator Salary and Benefits	-	-
	6390-020 Amount:	5,991	6,001
6263T	Total Administrative Expenses	<u>\$132,457</u>	<u>\$148,585</u>
<b>Utilities Expenses</b>			
6450	Electricity	\$10,560	\$10,988
6451	Water	30,159	28,306
6452	Gas	1,955	2,627
6453	Sewer	45,632	43,168
6400T	Total Utilities Expense	<u>\$88,306</u>	<u>\$85,089</u>
<b>Operating And Maintenance Expenses</b>			
6510	Payroll	\$28,285	\$42,000
6515	Supplies	12,602	9,661
6520	Contracts	38,394	48,275
6521	Operating & Maintenance Rent Free Unit	-	-
6525	Garbage & Trash Removal	31,182	29,583
6530	Security Payroll/ Contracts	1,203	2,746
6531	Security Rent Free Unit	-	-
6546	Heating/Cooling Repairs & Maintenance	-	-
6548	Snow Removal	-	-
6570	Vehicle & Maintenance Equip. Operation & Repairs	-	-
6580	Lease Expense	-	-
6590	Misc. Op. & Maintenance Expenses <i>(if over \$2,500, detail is required)</i>	483	1,068
6500T	Total Operating & Maintenance Expenses	<u>\$112,149</u>	<u>\$133,333</u>

## Supplementary Information (Cont.)

CA Property Apartments, L.P.

**Schedules of Operating Expenses**  
**For the Years Ended December 31, 20YY and 20XX**

<b>Schedule of Operating Expenses</b>		<b>20YY</b>	<b>20XX</b>
<b>Taxes &amp; Insurance</b>			
6710	Real Estate Taxes	\$978	\$409
6711	Payroll Taxes (Project's share)	7,128	12,028
6720	Property & Liability Insurance (Hazard)	16,944	24,202
6721	Fidelity Bond Insurance	-	-
6722	Workmen's Compensation	7,072	6,894
6723	Health Insurance & Other Benefits	23,562	24,607
6790	Misc. Taxes, Licenses, Permits & Insurance <i>(if over \$2,500, detail is required)</i>	800	800
6700T	Total Taxes & Insurance	<u>\$56,484</u>	<u>\$68,940</u>
<b>Financial Expenses</b> <i>(not all expenses are shown)</i>			
6820	Interest on Mortgage (or Bonds) Payable	\$101,330	\$103,141
6825	Interest on Other Mortgages	38,058	39,018
6890	Misc. Financial Expenses <i>(if over \$2,500, detail is required)</i>		
	6890-010 Description: County Density Bonus Monitoring Fee	-	-
	6890-020 Amount:	5,925	5,925
6800T	Total Financial Expenses	<u>\$145,313</u>	<u>\$148,084</u>
<b>Nursing Homes/Assisted Living/Board &amp; Care/Other Elderly Expenses 6930-6990</b> <i>(for most HCD and CalHFA funded projects, these costs are not an eligible operating expense and must be paid out of the owner's distribution; expense accounts not shown)</i>			
6900T	Total Nursing Home/Astd Living/Board Care/Other Elderly Expenses	-	-
6000	<b>Total Cost of Operations before Depreciation</b>	<u><b>\$534,709</b></u>	<u><b>\$584,031</b></u>
5060T	<b>Operating Profit (Loss) before Depreciation</b>	<u><b>\$277,354</b></u>	<u><b>\$213,512</b></u>
<b>Depreciation &amp; Amortization Expenses</b>			
6600	Depreciation Expense	\$494,892	\$492,494
6610	Amortization Expense	7,268	7,268
5060N	<b>Operating Profit (Loss)</b>	<u><b>\$(224,806)</b></u>	<u><b>\$(286,250)</b></u>
<b>Net Entity Expenses</b> <i>(not all expenses accounts are shown)</i>			
7142	Interest on Mortgage Payable	\$205,924	\$205,924
7190	Other Expenses <i>(detail always required for this account)</i>		
	7190-010 Description: Asset Management Fee	-	-
	7190-020 Amount:	12,000	12,000
	7190-010 Description: Partnership Management Fee	-	-
	7190-020 Amount:	22,294	22,073
7100T	Total Net Entity Expenses	<u>\$240,218</u>	<u>\$239,997</u>
3250	<b>Change in Total Net Assets from Operations (Net Loss)</b>	<u><b>\$(465,024)</b></u>	<u><b>\$(526,247)</b></u>

## Supplementary Information (Cont.)

### Cash on Hand and in Banks

Unrestricted accounts:	
Petty cash	\$200
Checking accounts – operations	142,700
Total	<u>\$142,900</u>
Restricted accounts:	
Mortgage impound accounts	\$22,107
Replacement reserve	111,072
Operating reserve	180,806
Tenant Security Deposits	69,373
Total	<u>\$383,358</u>

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 during 20YY was \$112.

### Mortgage Impound Accounts

	Property Tax	Hazard/Liability Insurance	Total
Balance, December 31, 20XX	\$15,506	\$9,877	\$25,383
Monthly deposits:			
Ten months at \$3,600	36,000	-	36,000
Two months at \$3,810	7,620	-	7,620
Ten months at \$1,315	-	13,150	13,150
Two months at \$1,167	-	2,334	2,334
Interest earned	140	-	140
Payments for insurance and taxes	(46,610)	(12,182)	(58,792)
Refund	-	(3,728)	(3,728)
Escrow adjustments	1,279	(1,279)	-
Balance, December 31, 20YY	<u>\$13,935</u>	<u>\$8,172</u>	<u>\$22,107</u>

## Supplementary Information (Cont.)

### Reserves for Replacements and Operating Expenses

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

	<b>Replacement Reserve</b>	<b>Operating Reserve</b>
Balance, December 31, 20XX	\$90,429	\$179,996
Monthly deposits:		
Twelve months at \$2,330 per month	27,960	-
Interest earned	450	810
Withdrawals (amount capitalized)	(5,747)	-
Withdrawals (amount included in operating expenses)	(2,020)	-
Balance, December 31, 20YY	<u>\$111,072</u>	<u>\$180,806</u>

### Property, Equipment and Improvements

Following are the details of property, equipment and improvements:

Property, Equipment & Improvements at Cost	Land	Building & Improvements	Furniture & Equipment	Total
Balance, December 31, 20XX	\$2,084,544	\$17,759,796	\$457,743	\$20,302,083
Additions		3,049	2,698	5,747
Balance, December 31, 20YY	<u>\$2,084,544</u>	<u>\$17,762,845</u>	<u>\$460,441</u>	<u>\$20,307,830</u>

### Accounts Payable and Accrued Expenses

Accounts payables are payable to vendors and are being paid on a current basis.

Detail follows:

Accounts payable – trade	<u>\$10,479</u>
--------------------------	-----------------

### Gross Potential Rents

Tenant rental payments	\$763,493
Housing assistance payments	22,164
Employee quarters shown as an expense	13,848
Vacancy loss and concessions	12,570
Total gross potential rents	<u>\$812,075</u>

### Management Fee

A property management fee of \$49,824 was incurred during 20YY for the property management services provided by GP Group Corporation.

## Supplementary Information (Cont.)

CA Property Apartments, L.P.

### Computation Of Operating Cash Flow/Surplus Cash For The Year Ended December 31, 20YY

#### Operating Cash Flow/Surplus Cash Computation - per HCD/CalHFA Regulatory Agreements

Operating Cash Flow/Surplus Cash will be distributed according to the HCD method.

Operating Income	
Total income <i>(see page A-20)</i>	\$812,063
Interest earned on restricted reserve accounts <i>(see page A-24)</i>	(1,260)
Adjusted operating income	<u>\$810,803</u>
Operating expenses <i>(see page A-22)</i>	<u>(389,396)</u>
Adjusted net income	\$421,407
Other activity	
Mandatory debt service	
CalHFA <i>(see page A-15)</i>	(135,247)
RCAC <i>(see page A-15)</i>	(114,575)
HCD <i>(see page A-15)</i>	(19,553)
Density bonus fee paid to the County of Sonoma <i>(see page A-22)</i>	(5,925)
Replacement reserve deposits <i>(see page A-24)</i>	(27,960)
Other reserve deposits per Regulatory Agreement	-
Replacement reserve withdrawals (expensed) <i>(see page A-24)</i>	2,020
Total other activity	<u>\$(301,240)</u>
<b>Operating cash flow/surplus cash</b>	<b><u>\$120,167</u></b>
Distribution of operating cash flow/surplus cash	
Asset management fee <i>(see page A-22)</i>	\$(12,000)
Pay off of the deferred developer fee amount permitted by HCD to be paid on a priority basis	(90,000)
<b>Total cash available for distributions (net cash flow)</b>	<b><u>\$18,167</u></b>
<b>Distributions and loan payments – <u>Do not submit payments until invoiced by HCD/CalHFA</u></b>	
50% to be distributed to owner	\$9,083
<b>50% split and paid as follows per Regulatory Agreement:</b>	
62% to HCD MHP loan	\$5,632
20% to HCD Serna loan	1,817
3% to CCDC Home first loan	272
1% to CCDC Home second loan	91
6% to CCDC first loan	546
4% to CCDC second loan	363
4% to CCDC CDBG loan	363
Total distributions to lenders	<u>\$9,084</u>
<b>Total distributions to owner and lenders</b>	<b><u>\$18,167</u></b>

Note: Timing difference exceptions related to Replacement Reserve withdrawals and capital purchases may be approved by HCD and CalHFA. Details of timing differences, including the applicable years and amounts, must be clearly described in the Audit.

## Supplementary Information (Cont.)

CA Property Apartments, L.P.

### Computation Of Operating Cash Flow/Surplus Cash For The Year Ended December 31, 20YY

#### **Hypothetical Example**

The following hypothetical example of Operating Cash Flow/Surplus Cash assumes the Deferred Developer Fee that can be paid on a priority basis as set forth in the HCD Regulatory Agreement, has been paid off.

<b>Operating cash flow/surplus cash from above</b>	<b>\$120,167</b>
Distribution of operating cash flow/surplus cash	
Asset management fee ( <i>see page A-22</i> )	(12,000)
<b>Total cash available for distributions (net cash flow)</b>	<b><u>\$108,167</u></b>
<b>Distributions and loan payments – <u>Do not submit payments until invoiced by HCD/CalHFA</u></b>	
50% to be distributed to owner	\$54,083
<b>50% split and paid as follows per Regulatory Agreement:</b>	
62% to HCD MHP loan	\$33,532
20% to HCD Serna loan	10,817
3% to CCDC Home first loan	1,623
1% to CCDC Home second loan	541
6% to CCDC first loan	3,245
4% to CCDC second loan	2,163
4% to CCDC CDBG loan	2,163
Total distributions to lenders	<u>\$54,084</u>
<b>Total distributions to owner and lenders</b>	<b><u>\$108,167</u></b>

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CA Property Apartments, L.P.

**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 CA Property 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*

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The GP Group Corporation  
Sign Name, President

2/15/20ZZ

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Date

Other (Cont.)

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CA Property Apartments, L.P.

**Certification of Officers  
For The Year Ended December 31, 20YY**

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

We, as officers of The GP Group Corporation, a California nonprofit public benefit corporation, hereby certify that we have examined the accompanying financial statements and supplementary data of CA Property Apartments, L.P. 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

Employer Identification Number: 99-0000000

## Other (Cont.)

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CA Property Apartments, L.P.

### **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  
CA Property Apartments  
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 CA Property Apartments, L.P., which comprise the balance sheet as of December 31, 20YY, and the related statements of operations, changes in partners' capital and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 13, 20ZZ.

#### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered CA Property Apartments, L.P.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CA Property Apartments, L.P.'s internal control. Accordingly, we do not express an opinion on the effectiveness of CA Property 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 our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Other (Cont.)

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### **Compliance and Other Matters**

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

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CA Property 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 CA Property Apartments, L.P.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Certified Public Accountants

City, California  
Date

## Other (Cont.)

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CA Property Apartments, L.P.

HCD Contract Numbers 01-FWHG-1111 and 03-MHP-9999 and  
CalHFA Project No. #03333N

### **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.

**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**

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# Independent Auditor's Report

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The Partners of  
Sample Apartments Company  
City, California

## Report on the Financial Statements

We have audited the accompanying financial statements of Sample Apartments Company, a California limited partnership, CalHFA Project #11-111-N, which comprise the balance sheets as of December 31, 20YY and 20XX, and the related statements of operations, changes in partners' capital and cash flows for the years then ended, and the related notes to the financial statements.

## Management's Responsibility for the Financial Statements

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

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the requirements 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*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## Independent Auditor's Report (Cont.)

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### Opinion

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.

### Report on 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 California Housing Finance Agency (CalHFA) 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.

### Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards and the requirements 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*, we have also issued a report dated February 15, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and the requirements 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* in considering Sample Apartments Company, L.P.'s internal control over financial reporting and compliance.

Certified Public Accountants

City, California  
February 15, 20ZZ

## Sample Apartments

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

<b>Assets</b>	<b>20YY</b>	<b>20XX</b>
Current assets:		
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
Restricted funds (Note 2)		
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
Other assets:		
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>
 <b>Liabilities And Partners' Capital</b>		
Current liabilities:		
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

**Statement of Operations**  
**For The Years Ended December 31, 20YY and 20XX**

	<u>20YY</u>	<u>20XX</u>
Income:		
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	<u>\$460,800</u>	<u>\$462,732</u>
Expenses:		
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	<u>\$437,100</u>	<u>\$405,910</u>
Net operating income	\$23,700	\$56,822
Other expenses:		
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	<u>\$41,084</u>	<u>\$26,942</u>
Net income (loss)	\$(17,384)	\$29,880

## Sample Apartments

**Statement of Changes in Partners' Capital  
For The Years Ended December 31, 20YY and 20XX**

	<b>Balance 12/31/20XX</b>	<b>Net Loss for 20YY</b>	<b>Distributions in 20YY</b>	<b>Balance 12/31/20YY</b>
<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

**Statement of Cash Flows**  
**For The Years Ended December 31, 20YY and 20XX**

	<b>20YY</b>	<b>20XX</b>
Cash flows from operating activities:		
Rental receipts	\$450,125	\$452,080
Interest receipts	2,496	2,418
Other receipts	4,268	3,607
Administrative expenses paid	(24,840)	(18,739)
Management fees paid	(35,376)	(35,376)
Utilities paid	(44,051)	(41,071)
Salaries and wages paid	(92,222)	(76,288)
Operating and maintenance expenses paid	(128,088)	(94,621)
Payroll taxes, workers' compensation and employee benefit	(18,482)	(16,429)
Real property taxes	(17,789)	(18,829)
Impound deposits made	(14,500)	(15,211)
Miscellaneous taxes and insurance paid	(1,138)	(1,369)
Interest on mortgage note paid	(75,399)	(79,533)
Tenant security deposits (net)	183	(778)
Net cash provided by operating activities	<u>\$5,187</u>	<u>\$59,861</u>
Cash flows from investing activities:		
Surplus Cash due to CalHFA	\$(13,793)	-
Deposits to reserve for replacement	(18,876)	\$(18,876)
Withdrawals from replacement reserve	52,378	2,183
Net cash provided (used) by investing activities	<u>\$19,709</u>	<u>\$(16,693)</u>
Cash flows from financing activities:		
Mortgage principal payments	\$(51,626)	\$(47,492)
Cash distributions paid to partners	(4,626)	(4,626)
Entity expense	(800)	(800)
Net cash provided (used) by financing activities	<u>\$(57,052)</u>	<u>\$(52,918)</u>
Net increase (decrease) in cash	\$(32,156)	\$(9,750)
Cash - beginning of period	36,393	46,143
Cash - end of period	<u>\$4,237</u>	<u>\$36,393</u>

## Sample Apartments

**Statement of Cash Flows - (Continued)**  
**For The Years Ended December 31, 20YY and 20XX**

	<u>20YY</u>	<u>20XX</u>
Reconciliation of net loss to net cash provided by operating activities:		
Net income (loss)	\$(17,384)	\$29,880
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	\$26,394	\$26,045
Amortization	97	97
State minimum tax	800	800
Surplus cash due to CalHFA	13,793	-
Interest earned on reserve for replacement	(3,670)	(4,622)
Interest earned on operating reserve		
Decrease (increase) in:	(742)	(740)
Accounts receivable	(486)	47
Accrued interest	626	352
Prepaid insurance	69	(369)
Impound accounts	3,771	2,205
Operating reserve	(239)	-
Tenant security deposits (net)	183	(1,578)
Increase (decrease) in :		
Accounts payable	(18,058)	7,744
Prepaid rent	33	-
Net cash provided by operating activities	<u>\$5,187</u>	<u>\$59,861</u>

## Notes to Financial Statements

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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, 2010 and received a tax credit allocation (rent floor) on March 1, 2008.

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.

##### **Amortization of Title and Recording Costs**

Title and recording costs are being amortized over the term of the mortgage loan (480 months).

##### **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.

## Notes to Financial Statements (Cont.)

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### 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.

### 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	\$629

### 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, December 31, 20XX	\$25,965
Interest earned	78
Balance, December 31, 20YY	\$26,043

## Notes to Financial Statements (Cont.)

### 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.

The account activity during 20YY was as follows:

	<b>Insurance</b>	<b>Earthquake Insurance</b>	<b>Taxes</b>	<b>Total</b>
Balance, December 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, December 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, December 31, 20XX	\$99,258
Additions	18,876
Interest received	3,670
Withdrawals	(52,139)
Transfer	(239)
Balance, December 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, December 31, 20XX	\$19,289
Interest received	742
Transfer	239
Balance, December 31, 20YY	<u>\$20,270</u>

## Notes to Financial Statements (Cont.)

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### 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 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	<u>31,302</u>
<b>Total</b>	<b>\$871,967</b>

### 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.

## Notes to Financial Statements (Cont.)

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### 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:

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

## Supplementary Information

Sample Apartments

### Balance Sheet Data December 31, 20YY

Account No.		<u>20YY</u>
	<b>Current Assets</b>	
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>
	<b>Deposits Held in Trust - Funded</b>	
1191	Tenant/Patient Deposits Held in Trust	\$26,043
	<b>Restricted Deposits and Funded Reserves</b>	
1310	Escrow Deposits	\$21,676
1320	Replacement Reserve	69,426
1330	Other Reserves	20,270
1300T	Total Deposits	<u>\$111,372</u>
	<b>Rental Property</b>	
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>
	<b>Other Assets</b>	
1515	Investments - Entity	\$940
1500T	Miscellaneous Other Assets	\$940
1000T	<b>Total Assets</b>	<u><u>\$360,238</u></u>

## Supplementary Information (Cont.)

Sample Apartments

**Balance Sheet Data - Continued**  
**December 31, 20YY**

<b>Account No.</b>	<b>Liabilities And Partners' Equity (Deficit)</b>	<b>20YY</b>
	<b>Current Liabilities</b>	
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>
	<b>Deposits Liability</b>	
2191	Tenant/Patient Deposits Held in Trust(Contra)	\$20,843
	<b>Long-Term Liabilities</b>	
2310	Notes Payable(Long Term)	<u>\$815,848</u>
2300T	Total Long Term Liabilities	<u>\$815,848</u>
2000T	<b>Total Liabilities</b>	<u><u>\$894,603</u></u>
3130	<b>Total Net Assets</b>	<u>\$(534,365)</u>
2033T	<b>Total Liabilities and Equity/Net Assets</b>	<u><u>\$360,238</u></u>

## Supplementary Information (Cont.)

Sample Apartments

**Statement of Operations**  
**For the Years Ended December 31, 20YY and 20XX**

Acct. #	Schedule of Operations	20YY	20XX
	<b>Rent Revenue</b>		
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>(if over \$2,500, detail is required)</i>	-	-
5100T	Total Rent Revenue	<u>\$453,401</u>	<u>\$456,557</u>
	<b>Vacancies</b>		
5220	Apartments	\$2,409	\$4,120
5240	Stores and Commercial	-	-
5250	Rental Concessions	-	-
5270	Garage and Parking Spaces	-	-
5290	Miscellaneous <i>(if over \$2,500, detail is required)</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>
	<b>Financial Revenue</b>		
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- Miscellaneous <i>(if over \$2,500, detail is required)</i>	-	-
5400T	Total Financial Revenue	<u>\$5,540</u>	<u>\$6,688</u>
	<b>Other Revenue</b>		
5910	Laundry and Vending Revenue	-	-
5920	Tenant Charges	-	-
5990	Miscellaneous Revenue <i>(if over \$2,500, detail is required)</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	<b>Total Revenue</b>	<u>\$460,800</u>	<u>\$462,732</u>

## Supplementary Information (Cont.)

Sample Apartments

**Statement of Operations - Continued**  
**For the Years Ended December 31, 20YY and 20XX**

Acct. #	Schedule of Operations	20YY	20XX
	<b>Administrative Expenses</b>		
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	Miscellaneous Administrative Expenses <i>(if over \$2,500, detail is required)</i>	5,689	1,308
6390	6390-010 Description: Cable TV	-	-
	6390-020 Description: Amount: \$5,689		
6263T	Total Administrative Expenses	<u>\$122,070</u>	<u>\$105,200</u>
	<b>Utilities Expense</b>		
6450	Electricity	\$20,240	20,296
6451	Water	22,830	20,035
6452	Gas	-	-
6453	Sewer	-	-
6400T	Total Utilities Expense	<u>\$43,070</u>	<u>\$40,331</u>
	<b>Operating And Maintenance Expenses</b>		
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>(if over \$2,500, detail is required)</i>	10,522	10,635
	6590-010 Description: Repair and Maintenance		
	6590-020 Amount:\$10,522		
6500T	Total Operating and Maintenance Expenses	<u>\$140,812</u>	<u>\$127,972</u>

## Supplementary Information (Cont.)

Sample Apartments

**Statement of Operations - Continued**  
**For the Years Ended December 31, 20YY and 20XX**

Acct. #	Schedule of Operations	20YY	20XX
	<b>Taxes &amp; Insurance</b>		
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>(if over \$2,500, detail is required)</i>	141	141
6700T	Total Taxes and Insurance	<u>\$54,752</u>	<u>\$52,446</u>
	<b>Financial Expenses</b>		
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 (if over \$2,500, detail is required)		
6800T	Total Financial Expenses	76,396	79,961
6890	Miscellaneous Financial Expenses <i>(if over \$2,500, detail is required)</i>	-	-
6800T	Total Financial Expenses	<u>\$76,396</u>	<u>\$76,396</u>
6000	Total Cost of Operations before Depreciation	<u>\$437,100</u>	<u>\$405,910</u>
5060	Profit (Loss) before Depreciation	<u>\$23,700</u>	<u>\$56,822</u>
	<b>Depreciation &amp; Amortization Expenses</b>		
6600	Depreciation Expense	\$26,394	\$26,045
6610	Amortization Expense	97	97
<b>5060N</b>	<b>Operating Profit (Loss)</b>	<u><b>\$(2,791)</b></u>	<u><b>\$30,680</b></u>
	<b>Net Entity Expenses <i>(not all expense accounts are shown)</i></b>		
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 <i>(detail always required for this account)</i>	13,793	
	7190-010 Description: Surplus Cash due to CalHFA		
	7190-020 Amount: \$13,793		
7100T	Total Net Entity Expenses	<u>\$14,593</u>	<u>\$800</u>
<b>3250</b>	<b>Change in Total Net Assets from Operations</b>	<u><b>\$(17,384)</b></u>	<u><b>\$29,880</b></u>

## Supplementary Information (Cont.)

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Sample Apartments

### Statement of Operations - Continued For the Years Ended December 31, 20YY and 20XX

<b>Acct. #</b>	<b>Schedule of Operations</b>	<b>20YY</b>	<b>20XX</b>
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 (Cont.)

Sample Apartments

**Statement of Cash Flow**  
**For the Year Ended December 31, 20YY**

<b>Account No.</b>		<b>20YY</b>
	<b>Cash Flow from Operating Activities</b>	
S1200-010	Rental Receipts	\$450,125
S1200-020	Interest Receipts	2,496
S1200-025	Gifts	-
S1200-030	Other Operating Receipts	4,268
S1200-035	Entity/Construction Receipts	-
S1200-050	Administrative	(24,840)
S1200-070	Management Fee	(35,376)
S1200-090	Utilities	(44,051)
S1200-100	Salaries and Wages	(92,222)
S1200-110	Operating and Maintenance	(128,088)
S1200-120	Real Estate Taxes	(17,789)
S1200-140	Property Insurance	(14,500)
S1200-150	Miscellaneous Taxes and Insurance	(1,138)
S1200-160	Tenant Security Deposits	183
S1200-170	Other Operating Expenses	-
S1200-180	Interest on First Mortgage	(75,399)
S1200-181	Interest Payments - Second Mortgage	-
S1200-182	Interest Payments - Third Mortgage	-
S1200-220	Miscellaneous Financial	(18,482)
S1200-240	Net Cash Provided (used) by Operating Activities :	<u>\$5,187</u>
	<b>Cash Flow from Investing Activities</b>	
S1200-245	Net Deposits to the Mortgage Escrow account	-
S1200-250	Net Deposits to the Reserve for Replacement account	\$33,502
S1200-255	Net Deposits to Other Reserves	-
S1200-260	Net Deposits to Residual Receipts account	(13,793)
S1200-330	Net Purchases of Fixed Assets	-
S1200-350	Net Cash Provided (used) by Investing Activities :	<u>\$19,709</u>

## Supplementary Information (Cont.)

Sample Apartments

**Statement of Cash Flow**  
**For the Year Ended December 31, 20YY**

<b>Account No.</b>		<b>20YY</b>
	<b>Cash Flow from Financing Activities</b>	
S1200-360	Principal Payments - First Mortgage (or Bonds)	\$(51,626)
S1200-361	Principal Payments - Second Mortgage	-
S1200-362	Principal Payments - Third Mortgage	-
S1200-417	Principal Payments on Capital Recovery Payment	-
S1200-420	Distributions	(4,626)
S1200-430	Contributions	-
S1200-450	Other Financing Activities	(800)
S1200-455	Entity/Construction Financing Activities	-
S1200-460	Net Cash used by Financing Activities	<u>\$(57,052)</u>
	Net Increase (Decrease) in Cash & Cash Equivalents:	\$(32,156)
	<b>Cash and Cash Equivalents</b>	
S1200-480	Beginning of Period Cash	\$36,393
S1200T	End of Period Cash	\$4,237
	<b>Reconciliation of Net Loss to Net Cash Provided by Operating Activities</b>	
6600	Depreciation Expense	\$26,394
6610	Amortization Expense	97
S1200-490	Decrease (increase) in Tenant/Member Accounts Receivable	-
S1200-500	Decrease (increase) in Accounts Receivable - Other	\$(486)
S1200-505	Increase in Gifts Receivable	-
S1200-510	Decrease (increase) in Accrued Receivables	(4,412)
S1200-520	Decrease (increase) in Prepaid Expenses	-
S1200-540	Increase (decrease) in Accounts Payable	(14,526)
S1200-560	Increase (decrease) in Accrued Liabilities	13,793
S1200-570	Increase (decrease) in Accrued Interest Payable	626
S1200-580	Increase (decrease) in Tenant Security Deposits Held in Trust	183
S1200-590	Increase (decrease) in Prepaid Revenue	102
S1200-600	Other adjustments to reconcile net profit (loss) (used in) Operating Activities	800
	Net Income (Loss)	<u>\$(17,384)</u>

## Supplementary Information (Cont.)

Sample Apartments

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

**Assets**

	<b>Balance Jan. 1, 20YY</b>	<b>Additions</b>	<b>Removals</b>	<b>Balance Dec. 31, 20YY</b>
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 (Cont.)

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Sample Apartments  
Supplementary Information Required by CalHFA

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

<b>Program</b>	<b>Federal CFDA Number</b>	<b>Amount</b>
Department of Housing and Urban Development-Rent Supplements - Rental Housing for Lower Income Families	14.149	<u>\$278,498</u>

## Supplementary Information (Cont.)

Sample Apartments

**Surplus Cash Computation for CalHFA Section 8 Project Only  
For the Year Ended December 31, 20YY**

<b>Surplus Cash Computation</b>		<b>For Year End</b>
Add	Cash And Equivalents	
	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	\$51,036
Less	<b>Current Obligations</b>	
	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	\$22,603
Equals	Available Surplus Cash	\$28,433
	<b>Accumulated Limited Distribution Calculation</b>	
Add	Allowable Accumulated Limited Distribution At 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	\$4,626
	<b>Disposition Of Surplus Cash</b>	
	<b>Allowable Limited Distributions*</b> (Payment Subject To CalHFA Approval)	<b>\$4,626</b>
	* Lesser Of Surplus Cash Or Accumulated Limited Distributions	
	Residual Receipts	\$23,807
	<b>Reserve Fund For Operations (RFO) Calculation</b>	
	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	2,400
Less	<b>RFO Payment - Remit To CalHFA</b>	<b>\$2,400</b>
	<b>Earned Surplus Calculation</b>	
Less	Reserve Funds For Operations (Per Annual Statement)	\$20,270
	<b>Earned Surplus Amount (Remit To CalHFA)</b>	<b>\$1,137</b>

## Supplementary Information (Cont.)

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### 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, 20ZZ. 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>
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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 (Cont.)

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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

## Other (Cont.)

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### **Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards**

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, LP, which comprise the balance sheet as of December 31, 20YY, and the related statements of operations, changes in partners' capital and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 15, 20ZZ.

#### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Sample Apartments, LP's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sample, LP's internal control. Accordingly, we do not express an opinion on the effectiveness of Sample Apartments, LP'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 may exist that have not been identified.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Sample Apartments, LP's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with

## Other (Cont.)

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which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Sample Apartments, LP'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, LP's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Certified Public Accountants

City, California  
February 15, 20ZZ

## Other (Cont.)

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Sample Apartments Company

CalHFA Project #11-111-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 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.