

**Somerset Parkside Apartments  
(Contract Number 80-RHC-007)  
A Project of the Capitol Area Development Authority  
Sacramento, California**

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

**June 30, 2016 and 2015**

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

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## Independent Auditor's Report

Board of Directors  
Capitol Area Development Authority  
Sacramento, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Somerset Parkside Apartments (Contract Number 80-RHC-007) (the "Project"), a project of the Capitol Area Development Authority ("Authority"), which comprise the statement of net position as of June 30, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Somerset Parkside Apartments (Contract Number 80-RHC-007) as of June 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Prior Period Financial Statements*

The financial statements of the Somerset Parkside Apartments (Contract Number 80-RHC-007) as of and for the year ended June 30, 2015, were audited by other auditors whose report dated December 3, 2015, expressed an unmodified opinion on those statements.

### *Emphasis of Matter*

As described in Note 1, the financial statements present only the financial position and changes in financial position of the Project and do not purport to, and do not, present fairly, the financial position of the Authority as of June 30, 2016 and 2015 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### *Other Matters*

#### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 14 to 21 as required by the California Department of Housing and Community Development is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2016, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Sacramento, California  
December 6, 2016

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

**Statements of Net Position  
June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 1,007	\$ -
Residential accounts receivable, net	21,277	13,267
Due from HCD	30,494	50,920
Restricted cash - tenant security deposits	<u>10,483</u>	<u>7,313</u>
Total current assets	<u>63,261</u>	<u>71,500</u>
Noncurrent assets		
Restricted cash and cash equivalents - replacement reserve	<u>19,272</u>	<u>30,501</u>
Capital assets		
Building and Improvements	1,508,931	1,453,031
Less accumulated depreciation	<u>(1,445,604)</u>	<u>(1,438,170)</u>
Total capital assets	<u>63,327</u>	<u>14,861</u>
Total noncurrent assets	<u>82,599</u>	<u>45,362</u>
Total assets	<u>\$ 145,860</u>	<u>\$ 116,862</u>
<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ 4,271	\$ 14,353
Unearned revenue - prepaid rent	1,250	908
Due to the Authority	-	38,419
Due to HCD	-	2,530
Tenant security deposits	<u>10,483</u>	<u>7,313</u>
Total current liabilities	<u>16,004</u>	<u>63,523</u>
Total liabilities	<u>\$ 16,004</u>	<u>\$ 63,523</u>
<u>Net Position</u>		
Net investment in capital assets	\$ 63,327	\$ 14,861
Restricted for replacements	19,272	30,501
Unrestricted	<u>47,257</u>	<u>7,977</u>
Total net position	<u>\$ 129,856</u>	<u>\$ 53,339</u>

See Notes to Financial Statements.

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

**Statements of Revenues, Expenses and Changes in Net Position  
Years Ended June 30, 2016 and 2015**

	2016	2015
Operating revenues		
Rental revenue, net	\$ 148,524	\$ 107,977
HCD annuities	(17,896)	40,450
CADA annuity	110,805	-
Coin-operated laundry	1,872	2,398
Miscellaneous	1,863	7,333
Total operating revenues	245,168	158,158
Operating expenses		
Payroll		
Salaries and benefits	37,351	39,079
Administrative		
Legal and accounting services	4,850	4,850
Management fee	16,970	16,476
Media	564	540
Total administrative	22,384	21,866
Utilities	34,424	33,512
Operating and maintenance		
Services and supplies	7,133	7,623
Courtesy patrol	3,210	3,060
Maintenance contract	7,277	23,120
Decorating and painting	7,805	4,632
Repairs and maintenance	32,563	28,982
Total operating and maintenance	57,988	67,417
Insurance and taxes		
Insurance	8,018	8,060
Property taxes	1,052	1,143
Total insurance and taxes	9,070	9,203
Depreciation	7,434	6,119
Total operating expenses	168,651	177,196
Operating income (loss)	76,517	(19,038)

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

**Statements of Revenues, Expenses and Changes in Net Position  
Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Nonoperating revenues (expenses)		
Interest income	<u>-</u>	<u>178</u>
Total nonoperating revenues, net	<u>-</u>	<u>178</u>
Change in net position	76,517	(18,860)
Net position, beginning	<u>53,339</u>	<u>72,199</u>
Net position, end	<u>\$ 129,856</u>	<u>\$ 53,339</u>

See Notes to Financial Statements.

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

**Statements of Cash Flows  
Years Ended June 30, 2016 and 2015**

	2016	2015
Cash flows from operating activities		
Rental receipts	\$ 140,856	\$ 105,429
CADA annuity	110,805	-
Other receipts	3,735	9,731
Tenant security deposits received	11,225	1,723
Payroll and related costs	(37,351)	(39,079)
Administrative	(22,384)	(21,866)
Utilities	(34,424)	(33,512)
Operating and maintenance	(68,070)	(61,958)
Tenant security deposits paid	(8,055)	(3,395)
Insurance and taxes	(9,070)	(9,203)
	87,267	(52,130)
Net cash provided by (used in) operating activities		
Cash flows from noncapital financing activities		
Short-term (repayments to) borrowing from the Authority	(38,419)	38,419
	(38,419)	38,419
Net cash (used in) provided by noncapital financing activities		
Cash flows from investing activities		
Interest receipts	-	178
Acquisition of capital assets	(55,900)	-
	(55,900)	178
Net cash (used in) provided by investing activities		
Net decrease in cash and cash equivalents	(7,052)	(13,533)
Cash and cash equivalents, beginning	37,814	51,347
Cash and cash equivalents, end	\$ 30,762	\$ 37,814

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

**Statements of Cash Flows  
Years Ended June 30, 2016 and 2015**

	2016	2015
Reconciliation to the statements of net position		
Cash and cash equivalents	\$ 1,007	\$ -
Restricted cash and cash equivalents		
Tenant security deposits	10,483	7,313
Replacement reserves	19,272	30,501
Total cash and cash equivalents	\$ 30,762	\$ 37,814
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	\$ 76,517	\$ (19,038)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	7,434	6,119
Changes in assets and liabilities		
Residential accounts receivable	(8,010)	(2,634)
Receivable from HCD	20,426	(42,980)
Accounts payable	(10,082)	5,459
Unearned revenue -prepaid rent	342	86
Due to HCD	(2,530)	2,530
Tenant security deposits	3,170	(1,672)
Net cash provided by (used in) operating activities	\$ 87,267	\$ (52,130)

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

**Notes to Financial Statements  
June 30, 2016 and 2015**

**Note 1 - Organization and summary of significant accounting policies**

**General**

Somerset Parkside Apartments ("Project") is a 26-unit apartment complex located in downtown Sacramento, California. It provides housing for eligible low-income families under the State of California Department of Housing and Community Development ("HCD") Rental Housing Construction Program ("RHCP"). This program provides long-term financing to construct the housing project and monthly annuities to fund operating deficits

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

**Basis of presentation**

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

**Cash, cash equivalents and restricted cash equivalents**

The Project participates in the City's external investment pool. The City Treasurer pools cash and other City funds and invests to maximize income consistent with safe and prudent investment practices within the guidelines of the City's investment policy. The City, as a charter city, has adopted its own investment guidelines to guide investment of City funds by the Treasurer. These guidelines are consistent with the requirements of California Government Code Section 53601. The City Council provides regulatory oversight of the City's investment pool and reviews its investment policy on a quarterly basis. The estimated fair value of investments in the pool is based upon quoted market prices. However, the value of the pool shares in the City's investment pool that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the Project's position in the pool. The City's investment pool is unrated and the weighted average maturity is 1.88 years at June 30, 2016 and 2.15 years at June 30, 2015. At June 30, 2016 and 2015, the entire amount of the Project's cash and cash equivalents and restricted cash and cash equivalents are invested in the City's external investment pool. Detailed disclosures, including investment policies and associated risk policies, regarding the Project's cash and investments are included in the notes to the Authority's basic financial statements.

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

**Notes to Financial Statements  
June 30, 2016 and 2015**

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

**Resident accounts receivable**

Resident accounts receivable are due from tenants and reported net of an allowance for doubtful accounts. Management's estimate of the allowance is based on historical collection experience and a review of the current status of the receivables. It is reasonably possible that management's estimate of the allowance will change. As of June 30, 2016 and 2015, the allowance for doubtful accounts was \$20,573 and \$20,910, respectively.

**Capital assets**

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

**Impairment of capital assets**

The Authority reviews the capital assets of the Project for impairment whenever events or changes in circumstances indicate that there has been a decline in service utility that is large in magnitude and outside of the normal life cycle of the capital asset being evaluated. As of June 30, 2016, there has been no impairment of the capital assets.

**Rental income**

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

**Use of estimates**

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

**Note 2 - Tenant security deposits**

The Project collects security deposits from tenants at the inception of the tenant lease. These deposits, which are reported in the basic financial statements as restricted cash, are refundable to the tenants to the extent there are no unpaid rents or damages to the housing unit. Tenant security deposits held as of June 30, 2016 and 2015 amounted to \$10,483 and \$7,313, respectively.

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

**Notes to Financial Statements  
June 30, 2016 and 2015**

**Note 3 - Capital assets**

Information on additions and disposals of capital assets is presented below:

	<u>June 30, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2016</u>
Capital assets being depreciated				
Buildings and improvements	\$ 1,453,031	\$ 55,900	\$ -	\$ 1,508,931
Less accumulated depreciation for Buildings and improvements	<u>(1,438,170)</u>	<u>(7,434)</u>	<u>-</u>	<u>(1,445,604)</u>
Capital assets being depreciated, net	<u>\$ 14,861</u>	<u>\$ 48,466</u>	<u>\$ -</u>	<u>\$ 63,327</u>
	<u>June 30, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2015</u>
Capital assets being depreciated				
Buildings and improvements	\$ 1,453,031	\$ -	\$ -	\$ 1,453,031
Less accumulated depreciation for Buildings and improvements	<u>(1,432,051)</u>	<u>(6,119)</u>	<u>-</u>	<u>(1,438,170)</u>
Capital assets being depreciated, net	<u>\$ 20,980</u>	<u>\$ (6,119)</u>	<u>\$ -</u>	<u>\$ 14,861</u>

**Note 4 - Replacement reserves**

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

	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 30,501	\$ 32,773
Interest earned	329	178
CADA annuity	-	198
Required deposits	6,400	6,400
Authorized expenses	<u>(17,958)</u>	<u>(9,048)</u>
Ending balance	<u>\$ 19,272</u>	<u>\$ 30,501</u>

**Note 5 - Program payments**

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

On June 30, 2015, HCD approved the Project's operating budget with certain changes. In determining the qualifying operating costs, HCD disallows certain expenses reflected in these financial statements. Specific items disallowed include vacancy in excess of an approved

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

**Notes to Financial Statements  
June 30, 2016 and 2015**

percentage, interest income on the replacement reserve, depreciation expense, repairs paid out of replacement reserve and asset acquisitions exceeding the authorized budget.

For the fiscal year ended June 30, 2016, the Project had a net annuity expense of \$17,896 and for the fiscal year ended June 30, 2015, the project had net annuity revenue of \$40,450. Net unexpended program payments are reported as due from HCD on the Project's statements of net position. As of June 30, 2016 and 2015, HCD owes the Project annuities receivable of \$30,494 and \$50,920, respectively, and such amounts will either be paid in whole or in part by HCD, or with HCD approval applied against future annuities due to HCD. The activity in the account for the fiscal years ended June 30, are as follows:

	2016	2015
Due from HCD, beginning	\$ 50,920	\$ 7,940
Excess program payments for the current year	20,014	50,920
Excess program payment per audit	10,480	-
HCD corrections and adjustments	(50,920)	(7,940)
Due to HCD, end	\$ 30,494	\$ 50,920

**Note 6 – Assistance from the Authority**

The Authority has committed to fund deficits with additional annuities paid to the Project. During the year ended June 30, 2016, the Project operated at a loss and the Authority made annuity contributions of \$110,805 to the Project.

**Note 7 - Leased property**

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

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

**Note 8 - Subsequent events**

Management evaluated the activity of the Project through December 6, 2016, the date the financial statements were available to be issued, and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to financial statements, except as noted below:

In September 2016, the Authority and HCD terminated the regulatory agreement for the Project (Contract No.80-RHC-007) and entered into a 16-year term new regulatory agreement for the Project under the Loan Portfolio Restructuring Program (LPRP). Under the new regulatory agreement, the Authority obtained a permanent loan in the amount of \$1,197,213 secured by the Project, bearing interest at 3%, and payable from available cash flow as defined. HCD also renewed the annuity payments provisions for the Project under the new regulatory agreement.

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

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

**Supplementary Information  
Year Ended June 30, 2016**

<u>Account No.</u>		
	Operating revenues	
5120	Rent revenue	\$ 130,814
5121	Tenant assistance payments	17,710
		<hr/>
	Rental revenue	148,524
		<hr/>
	HCD annuities	
	Excess program payments	(17,896)
		<hr/>
	Net HCD annuities	(17,896)
		<hr/>
	Other revenues	
5990	CADA annuity	110,805
5910	Coin-operated laundry	1,872
5190	Miscellaneous	1,863
		<hr/>
	Total other revenues	114,540
		<hr/>
	Total operating revenues	245,168
		<hr/>
	Operating expenses	
	Payroll	
6330	Manager salaries	19,890
6331	Manager rent fee unit	2,688
6510	Janitor payroll	14,773
		<hr/>
	Total payroll	37,351
		<hr/>
6350	Accounting services	4,850
6320	Management fee	16,970
6210	Media	564
		<hr/>
	Total administrative	22,384
		<hr/>
	Utilities	
6450	Electricity	3,494
6452	Gas	815
6453	Water/Sewer	27,695
6525	Garbage	2,420
		<hr/>
	Total utilities	34,424
		<hr/>

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

**Supplementary Information  
Year Ended June 30, 2016**

<u>Account No.</u>		
	Operating and maintenance	
6515	Services and supplies	7,133
6530	Courtesy patrol	3,210
6517	Janitor and cleaning contracts	5,992
6537	Grounds contract	1,285
6560	Decorating and painting	7,805
6590	Misc. Ops. And Maint. Expense	14,605
6591	Major construction	17,958
		<hr/>
	Total operating and maintenance	57,988
		<hr/>
	Insurance and taxes	
6729	Insurance	8,018
6710	Property taxes	1,052
		<hr/>
	Total insurance and taxes	9,070
		<hr/>
	Depreciation	7,434
		<hr/>
	Total operating expenses	168,651
		<hr/>
	Operating income	76,517
		<hr/>
	Non-operating revenues	
5410	Interest income	-
		<hr/>
	Change in net position	\$ 76,517
		<hr/> <hr/>
	Reconciliation to Form 180	
	Total operating revenues	\$ 245,168
	Interest income	-
	Less interest income for equipment reserve	(329)
	Less annuities and excess program payments	17,896
	Less CADA annuity	(110,805)
		<hr/>
	Effective gross rent from form 180	\$ 151,930
		<hr/> <hr/>
	Total expenses	\$ 168,651
	Less depreciation	(7,434)
	Less major construction expense through replacment reserve	(17,958)
	Less difference for allocation calculation	(5)
		<hr/>
	Total operating cost from form 180	\$ 143,254
		<hr/> <hr/>

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

**Supplementary Information  
Year Ended June 30, 2016**

**Insurance**

Insurance premiums are current as of June 30, 2016. The annual renewal policy was paid before the due date.

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Project Name: Somerset Parkside

Contract #: 80-RHC-007

Sponsor's Name: Capitol Area Development Authority

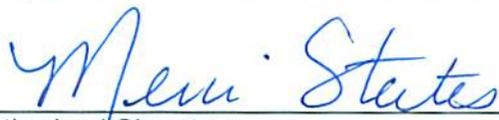
Project Fiscal Year: 2015-2016

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

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**Sponsor Certification**

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

  
\_\_\_\_\_

Authorized Signature

Merri Stutes

Printed Name

Resident Services Manager

Title

12/6/16

Date



Explanation of other Withdrawals:

**ADDITIONAL REQUESTED INFORMATION FOR FY:**

2015-2016

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

**Annual Report**

**Actual Operating Costs**

AMC 180a (Rev. Oct 2009) (This version is used for RHCP-O only)

**Rental Housing Construction Program -- Original**

**7. REPORT OF ACTUAL OPERATING COSTS**

Reporting Period: 7/1/2015 to 6/30/2016

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

Units/Sq. Ft. - Assisted: 20  
 Units/Sq. Ft. - Total: 26

Unit Months: 312

ACCOUNT NAME	ACCOUNT CODES	UNIT EXPENSES						PROJECT TOTALS		
		Approved Assisted (A)	Actual Assisted	Approved Non-Assisted	Actual Non-Assisted	Proposed Commercial	Actual Commercial	Approved Total Expenses	Total Actual Expenses (B)	Project Variance (C)
<b>MANAGEMENT FEE: 6200/6300</b>										
1 Management Fee or Sponsor Overhead	6320	11,879	11,879	5,091	5,091	0	0	16,970	16,970	0
<b>ADMINISTRATIVE EXPENSES: 6200/6300</b>										
2 Advertising	6210	395	395	169	169	0	0	564	564	0
3 Apartment Resale Expense (Cooperatives)	6235	0	0	0	0	0	0	0	0	0
4 Other Renting Expenses	6250	70	0	30	0	0	0	100	0	100
5 Office Salaries	6310	0	0	0	0	0	0	0	0	0
6 Office Supplies	6311	0	0	0	0	0	0	0	0	0
7 Office or Model Apartment Rent	6312	0	0	0	0	0	0	0	0	0
8 Manager and Superintendent Salaries	6330	13,923	13,923	5,967	5,967	0	0	19,890	19,890	0
9 Manager's or Superintendent's Rent Free Unit	6331	1,882	1,882	806	806	0	0	2,688	2,688	0
10 Legal Expense - Project	6340	700	0	300	0	0	0	1,000	0	1,000
11 Audit Expense - Project	6350	3,395	3,395	1,455	1,445	0	0	4,850	4,840	10
12 Bookkeeping Fees/Accounting Services	6351	0	0	0	0	0	0	0	0	0
13 Telephone and Answering Service Expenses	6360	0	0	0	0	0	0	0	0	0
14 Bad Debt Expense	6370	0	0	0	0	0	0	0	0	0
15 Miscellaneous Administrative Expenses (specify)	6390	0	0	0	0	0	0	0	0	0
<b>16 TOTAL ADMINISTRATIVE EXPENSES</b>	<b>6200/6300T</b>	<b>20,364</b>	<b>19,595</b>	<b>8,728</b>	<b>8,387</b>	<b>0</b>	<b>0</b>	<b>29,092</b>	<b>27,982</b>	<b>1,110</b>
<b>UTILITIES EXPENSES: 6400</b>										
17 Fuel Oil/Coal	6420	0	0	0	0	0	0	0	0	0
18 Electricity	6450	2,100	2,446	900	1,049	0	0	3,000	3,495	(495)
19 Water	6451	0	0	0	0	0	0	0	0	0
20 Gas	6452	770	570	330	245	0	0	1,100	815	285
21 Sewer	6453	20,300	19,386	8,700	8,309	0	0	29,000	27,695	1,305
<b>22 TOTAL UTILITIES EXPENSES</b>	<b>6400T</b>	<b>23,170</b>	<b>22,402</b>	<b>9,930</b>	<b>9,603</b>	<b>0</b>	<b>0</b>	<b>33,100</b>	<b>32,005</b>	<b>1,095</b>
<b>OPERATING AND MAINTENANCE EXPENSES: 6500</b>										
23 Janitor and Cleaning Payroll	6510	5,250	10,341	2,250	4,432	0	0	7,500	14,773	(7,273)
24 Janitor and Cleaning Supplies	6515	1,948	4,993	835	2,140	0	0	2,783	7,133	(4,350)
25 Janitor and Cleaning Contracts	6517	7,063	4,195	3,027	1,798	0	0	10,090	5,993	4,097
26 Exterminating Payroll/Contract	6519	0	0	0	0	0	0	0	0	0
27 Exterminating Supplies	6520	0	0	0	0	0	0	0	0	0
28 Garbage and Trash Removal	6525	2,450	1,694	1,050	726	0	0	3,500	2,420	1,080
29 Security Payroll/Contract	6530	2,247	2,247	963	963	0	0	3,210	3,210	0
30 Grounds Payroll	6535	0	0	0	0	0	0	0	0	0
31 Grounds Supplies	6536	0	0	0	0	0	0	0	0	0
32 Grounds Contract	6537	900	900	386	386	0	0	1,285	1,286	(1)
33 Repairs Payroll	6540	0	0	0	0	0	0	0	0	0
34 Repairs Material	6541	4,550	0	1,950	0	0	0	6,500	0	6,500
35 Repairs Contract	6542	0	0	0	0	0	0	0	0	0
36 Elevator Maintenance/Contract	6545	0	0	0	0	0	0	0	0	0
37 Heating/Cooling Repairs and Maintenance	6546	0	0	0	0	0	0	0	0	0
38 Swimming Pool Maintenance/Contract	6547	0	0	0	0	0	0	0	0	0
39 Snow Removal	6548	0	0	0	0	0	0	0	0	0
40 Decorating/Payroll Contract	6560	3,500	5,463	1,500	2,342	0	0	5,000	7,805	(2,805)
41 Decorating Supplies	6561	0	0	0	0	0	0	0	0	0
42 Vehicle and Maint. Equipment Operation/Repairs	6570	0	0	0	0	0	0	0	0	0
43 Misc. Operating and Maintenance Expenses (specify)	6590	1,750	10,223	750	4,382	0	0	2,500	14,605	(12,105)
<b>44 TOTAL OPERATING &amp; MAINTENANCE EXPENSES</b>	<b>6500T</b>	<b>29,658</b>	<b>40,056</b>	<b>12,710</b>	<b>17,169</b>	<b>0</b>	<b>0</b>	<b>42,368</b>	<b>57,225</b>	<b>(14,857)</b>
<b>TAXES AND INSURANCE: 6700</b>										
45 Real Estate Taxes	6710	805	737	345	316	0	0	1,150	1,053	97
46 Payroll Taxes (Project's Share)	6711	0	0	0	0	0	0	0	0	0
47 Misc. Taxes, Licenses and Permits	6719	0	0	0	0	0	0	0	0	0
48 Property and Liability Insurance (Hazard)	6720	0	0	0	0	0	0	0	0	0
49 Fidelity Bond Insurance	6721	0	0	0	0	0	0	0	0	0
50 Worker's Compensation	6722	0	0	0	0	0	0	0	0	0
51 Health Insurance and Other Employee Benefits	6723	0	0	0	0	0	0	0	0	0
52 Other Insurance	6729	7,000	5,613	3,000	2,406	0	0	10,000	8,019	1,981
<b>53 TOTAL TAXES AND INSURANCE</b>	<b>6700T</b>	<b>7,805</b>	<b>6,350</b>	<b>3,345</b>	<b>2,722</b>	<b>0</b>	<b>0</b>	<b>11,150</b>	<b>9,072</b>	<b>2,078</b>
<b>ASSISTED LIVING/BOARD &amp; CARE EXPENSES: 6900</b>										
54 Food	6932	0	0	0	0	0	0	0	0	0
55 Recreation and Rehabilitation	6980	0	0	0	0	0	0	0	0	0
56 Rehabilitation Salaries	6983	0	0	0	0	0	0	0	0	0
57 Other Service Expenses	6990	0	0	0	0	0	0	0	0	0
<b>58 TOTAL ASSISTED LIVING EXPENSES</b>	<b>6900T</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>61 TOTAL OPERATING COSTS</b>		<b>92,876</b>	<b>100,282</b>	<b>39,804</b>	<b>42,972</b>	<b>0</b>	<b>0</b>	<b>132,680</b>	<b>143,254</b>	<b>(10,574)</b>

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

Reporting Period: 07/01/2015 to 6/30/016

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

Units/Sq. Ft. - Assisted: **20**  
 Units/Sq. Ft. - Total: **26**  
 Unit Months: **312**

ACCOUNT NAME	Account Codes	ASSISTED UNITS		NON-ASSISTED UNITS		COMMERCIAL		TOTAL PROJECT		PROJECT VARIANCE
		Approved Cashflow (A)	Actual Cashflow (B)	Approved Cashflow (C)	Actual Cashflow (D)	Proposed Cashflow (E)	Actual Cashflow (F)	Approved Cashflow (G)	Actual Cashflow (H)	Cashflow Variance (I)
<b>REVENUE ACCOUNTS/RENT REVENUE: 5100</b>										
1 Rent Revenue	5120	85,272	60,174	62,568	70,640	0	0	147,840	130,814	(17,026)
2 Tenant Assistance Payments	5121	7,260	17,710	0	0	0	0	7,260	17,710	10,450
3 Rent revenue - Stores and Commercial	5140	0	0	0	0	0	0	0	0	0
4 Garage and Parking Spaces	5170	0	0	0	0	0	0	0	0	0
5 Flexible Subsidy Revenue	5185	0	0	0	0	0	0	0	0	0
6 Miscellaneous Rent Revenue	5190	350	1,073	150	460	0	0	500	1,533	1,033
7 Excess Rent	5191	0	0	0	0	0	0	0	0	0
8 Rent Revenue/Insurance	5192	0	0	0	0	0	0	0	0	0
9 Special Claims Revenue	5193	0	0	0	0	0	0	0	0	0
10 Retained Excess Income	5194	0	0	0	0	0	0	0	0	0
<b>11 GROSS RENT REVENUE</b>	<b>5100T</b>	<b>92,882</b>	<b>78,957</b>	<b>62,718</b>	<b>71,100</b>	<b>0</b>	<b>0</b>	<b>155,600</b>	<b>150,057</b>	<b>(5,543)</b>
<i>Total Vacancies (HCD Use Only)</i>	<b>5200T</b>	<b>2,558</b>	<b>0</b>	<b>1,877</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,435</b>	<b>0</b>	<b>0</b>
<b>ASSISTED LIVING/BOARD &amp; CARE REVENUES: 5300</b>										
17 Food	5332	0	0	0	0	0	0	0	0	0
18 Recreation (Activities) and Rehabilitation	5380	0	0	0	0	0	0	0	0	0
19 Rehabilitation	5385	0	0	0	0	0	0	0	0	0
20 Other Service Revenue	5390	0	0	0	0	0	0	0	0	0
<i>Total Living Revenue</i>	<b>6300T</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>FINANCIAL REVENUE: 5400</b>										
21 Financial Revenue - Project Operations	5410	158	0	68	0	0	0	225	0	(225)
<i>Total Financial Revenue</i>	<b>5400T</b>	<b>158</b>	<b>0</b>	<b>68</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>225</b>	<b>0</b>	<b>(225)</b>
<b>OTHER REVENUE: 5900</b>										
22 Laundry and Vending Revenue	5910	2,282	1,311	978	562	0	0	3,260	1,873	(1,387)
23 NSF and Late Charges	5920	0	0	0	0	0	0	0	0	0
24 Damages and Cleaning Fees	5930	0	0	0	0	0	0	0	0	0
25 Forfeited Tenant Security Deposits	5940	0	0	0	0	0	0	0	0	0
26 Other Revenue	5990	0	0	0	0	0	0	0	0	0
<i>Total Other Revenue</i>	<b>5900T</b>	<b>2,282</b>	<b>1,311</b>	<b>978</b>	<b>562</b>	<b>0</b>	<b>0</b>	<b>3,260</b>	<b>1,873</b>	<b>(1,387)</b>
<b>27 EFFECTIVE GROSS RENT (EGR)</b>	<b>5152T</b>	<b>92,763</b>	<b>80,268</b>	<b>61,886</b>	<b>71,662</b>	<b>0</b>	<b>0</b>	<b>154,650</b>	<b>151,930</b>	<b>(2,719)</b>
<b>28 TOTAL OPERATING EXPENSES</b>	<b>6000T</b>	<b>95,662</b>	<b>100,282</b>	<b>37,018</b>	<b>42,972</b>	<b>0</b>	<b>0</b>	<b>132,680</b>	<b>143,254</b>	<b>(10,574)</b>
<b>29 NET OPERATING INCOME (NOI)</b>	<b>5000T</b>	<b>(2,899)</b>	<b>(20,014)</b>	<b>24,869</b>	<b>28,690</b>	<b>0</b>	<b>0</b>	<b>21,970</b>	<b>8,676</b>	<b>(13,293)</b>
<b>FINANCIAL EXPENSES: 6800</b>										
30 Non-Contingent Debt Service (specify lender)	6895	0	0	0	0	0	0	0	0	0
1st Mortgage =		0	0	0	0	0	0	0	0	0
2nd Mortgage =		0	0	0	0	0	0	0	0	0
3rd Mortgage =		0	0	0	0	0	0	0	0	0
31 HCD Required Payments	6890	0	0	0	0	0	0	0	0	0
32 Lease Payment	6890	0	0	0	0	0	0	0	0	0
33 Miscellaneous Financial Expenses	6890	0	0	0	0	0	0	0	0	0
<i>Total Financial Expenses</i>	<b>6800T</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>FUNDED RESERVES:</b>										
34 Escrow Deposits	1310	0	0	0	0	0	0	0	0	0
35 Replacement Reserve-Deposit	1320	4,480	4,480	1,920	1,920	0	0	6,400	6,400	0
36 Operating Reserve-Deposit	1300	0	0	0	0	0	0	0	0	0
37 Other Reserves (specify)										
#1	1330	0	0	0	0	0	0	0	0	0
#2	1330	0	0	0	0	0	0	0	0	0
#3	1330	0	0	0	0	0	0	0	0	0
<i>Total Reserve Deposits</i>		<b>4,480</b>	<b>4,480</b>	<b>1,920</b>	<b>1,920</b>	<b>0</b>	<b>0</b>	<b>6,400</b>	<b>6,400</b>	<b>0</b>
<b>38 PROJECT CASH FLOW (CF)</b>		<b>(7,379)</b>	<b>(24,494)</b>	<b>22,949</b>	<b>26,770</b>	<b>0</b>	<b>0</b>	<b>15,570</b>	<b>2,276</b>	<b>(13,293)</b>
<b>ADDITIONAL REVENUE:</b>										
39 RHCP-O Annuity Fund Request (For Assisted Units Only)		7,379	0	0	0	0	0	7,379	0	(7,379)
40 Withdrawal from Operating Reserves		0	0	0	0	0	0	0	0	0
41 Borrower Contribution		0	0	0	0	0	0	0	0	0
42 Other (specify)		0	0	0	0	0	0	0	0	0
<i>Total Additional Revenue</i>		<b>7,379</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7,379</b>	<b>0</b>	<b>(7,379)</b>
<b>USE OF CASH FLOW:</b>										
43 HCD Interest Payments		0	0	0	0	0	0	0	0	0
44 Asset Mgmt Fee (CHRP-R/SUHRP & HOME-pre-UMR Only)		0	0	0	0	0	0	0	0	0
45 Asset Mgmt Fee/Prtshp Costs (MHP/HOME under UMR)		0	0	0	0	0	0	0	0	0
46 Borrower Distributions		0	0	0	0	0	0	0	0	0
47 Residual Receipt Loan Payments		0	0	0	0	0	0	0	0	0
48 Other (specify)		0	0	0	0	0	0	0	0	0
<i>Total Use of Cash Flow</i>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

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

Board of Directors  
Capitol Area Development Authority  
Sacramento, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Somerset Parkside Apartments (Contract Number 80-RHC-007) ("Project"), a project of the Capitol Area Development Authority ("Authority") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Project's basic financial statements, and have issued our report thereon dated December 6, 2016.

#### Internal Control over Financial Reporting

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

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

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

#### Compliance and Other Matters

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

## Purpose of this Report

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

A handwritten signature in black ink that reads "Cohn Reznick LLP". The signature is written in a cursive, flowing style.

Sacramento, California  
December 6, 2016

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