

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

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

**June 30, 2018 and 2017**

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

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## Independent Auditor's Report

Board of Directors  
Capitol Area Development Authority  
Sacramento, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Somerset Parkside Apartments (Contract Numbers 80-RHC-007 and 15-LPR-005) (the "Project"), a project of the Capitol Area Development Authority ("Authority"), which comprise the statements of net position as of June 30, 2018 and 2017, and the related statements of revenue, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

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

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Somerset Parkside Apartments as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Emphasis of Matter*

As described in Note 1, the financial statements present only the financial position and changes in financial position and cash flows of the Project and do not purport to, and do not, present fairly, the financial position of the Authority as of June 30, 2018 and 2017 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### *Other Matters*

#### Required Supplementary Information

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

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 15 to 22 as required by the California Department of Housing and Community Development is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Sacramento, California  
January 14, 2019

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

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

	<u>Assets</u>	2018	2017
Current assets			
Cash and cash equivalents		\$ 175,255	\$ 220,810
Residential accounts receivable, net		18,950	19,648
Restricted cash - tenant security deposits		10,222	9,758
Total current assets		<u>204,427</u>	<u>250,216</u>
Noncurrent assets			
Restricted cash and cash equivalents - replacement reserve		104,211	59,441
Operating reserve		55,050	54,951
Capital assets			
Building and Improvements		1,696,323	1,696,323
Less accumulated depreciation		<u>(1,491,247)</u>	<u>(1,463,741)</u>
Total capital assets		<u>205,076</u>	<u>232,582</u>
Total noncurrent assets		<u>364,337</u>	<u>346,974</u>
Total assets		<u>\$ 568,764</u>	<u>\$ 597,190</u>
	<u>Liabilities</u>		
Current liabilities			
Accounts payable		\$ 4,170	\$ 4,276
Due to HCD		42,802	10,855
Unearned revenue - prepaid rent		4,533	6,212
Tenant security deposits		10,222	9,758
Total current liabilities		<u>61,727</u>	<u>31,101</u>
Noncurrent liabilities			
Accrued interest		65,847	29,930
Note payable long term		1,197,213	1,197,213
Total noncurrent liabilities		<u>1,263,060</u>	<u>1,227,143</u>
Total liabilities		<u>\$ 1,324,787</u>	<u>\$ 1,258,244</u>
	<u>Net Position</u>		
Net investment in capital assets		\$ (992,137)	\$ (964,631)
Restricted for replacements		104,211	59,441
Unrestricted		131,903	244,136
Total net position		<u>\$ (756,023)</u>	<u>\$ (661,054)</u>

See Notes to Financial Statements.

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

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

	2018	2017
Operating revenue		
Rental revenue, net	\$ 195,261	\$ 171,973
HCD annuities	(31,947)	(13,124)
Coin-operated laundry	3,276	3,187
Miscellaneous	1,379	3,498
	167,969	165,534
Operating expenses		
Payroll		
Salaries and benefits	37,105	39,348
Administrative		
Legal and accounting services	4,800	3,800
Management fee	18,000	17,470
Media	660	600
	23,460	21,870
Utilities	41,116	33,932
Operating and maintenance		
Services and supplies	5,361	4,916
Courtesy patrol	3,530	3,360
Maintenance contract	30,755	10,263
Decorating and painting	281	3,820
Repairs and maintenance	15,402	6,650
	55,329	29,009
Insurance and taxes		
Insurance	5,406	6,424
Property taxes	1,715	1,149
	7,121	7,573
Depreciation	27,506	18,137
	191,637	149,869
Operating income (loss)	(23,668)	15,665

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

	2018	2017
Nonoperating revenue (expenses)		
CADA Annuity revenue (expense)	(39,608)	419,000
Interest income	4,224	1,568
HCD loan funding obligation	-	(1,197,213)
Interest expense	(35,917)	(29,930)
Total nonoperating revenue, net	(71,301)	(806,575)
Change in net position	(94,969)	(790,910)
Net position, beginning	(661,054)	129,856
Net position, end	\$ (756,023)	\$ (661,054)

See Notes to Financial Statements.

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

	2018	2017
Cash flows from operating activities		
Rental receipts	\$ 194,280	\$ 178,564
HCD annuity	-	28,225
Other receipts	4,655	6,685
Tenant security deposits received	6,844	1,575
Payroll and related costs	(37,105)	(39,348)
Administrative	(23,460)	(21,870)
Utilities	(41,116)	(33,932)
Operating and maintenance	(55,435)	(29,004)
Tenant security deposits paid	(6,380)	(2,300)
Insurance and taxes	(7,121)	(7,573)
	35,162	81,022
Net cash provided by operating activities		
Cash flows from noncapital financing activities		
CADA annuity (paid) received	(39,608)	419,000
	(39,608)	419,000
Net cash (used in) provided by noncapital financing		
Cash flows from capital and related financing activities		
Acquisition of capital assets	-	(187,392)
	-	(187,392)
Net cash used in capital and related financing activities		
Cash flows from investing activities		
Interest income	4,224	1,568
	4,224	1,568
Net cash provided by investing activities		
Net increase (decrease) in cash and cash equivalents	(222)	314,198
Cash and cash equivalents, beginning	344,960	30,762
Cash and cash equivalents, end	\$ 344,738	\$ 344,960

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

	2018	2017
Reconciliation to the statements of net position		
Cash and cash equivalents	\$ 175,255	\$ 220,810
Restricted cash and cash equivalents		
Tenant security deposits	10,222	9,758
Replacement reserve	104,211	59,441
Operating reserve	55,050	54,951
	<u>\$ 344,738</u>	<u>\$ 344,960</u>
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	\$ (23,668)	\$ 15,665
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	27,506	18,137
Changes in assets and liabilities		
Residential accounts receivable	698	1,629
Receivable from HCD	-	30,494
Accounts payable	(106)	5
Unearned revenue - prepaid rent	(1,679)	4,962
Due to HCD	31,947	10,855
Tenant security deposits	464	(725)
	<u>\$ 35,162</u>	<u>\$ 81,022</u>
Net cash provided by operating activities		
	<u>\$ 35,162</u>	<u>\$ 81,022</u>
Significant noncash capital and related financing activities		
Note payable - HCD Loan Portfolio Restructuring	\$ -	\$ 1,197,213
	<u>\$ -</u>	<u>\$ 1,197,213</u>

See Notes to Financial Statements.

**Somerset Parkside Apartments  
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**Notes to Financial Statements  
June 30, 2018 and 2017**

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

**General**

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

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

**Basis of presentation**

The Project is accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows occur. The Project distinguishes operating from nonoperating revenue and expenses. Operating revenue and expenses generally result from providing services in connection with the Project's ongoing operations. The principal operating revenue of the Project is rental income from 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 revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses. When both restricted and unrestricted resources are available for use, it is the Project's policy to use restricted resources first, then unrestricted resources as needed.

**Cash, 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 2.12 years and 1.38 years at June 30, 2018 and 2017, respectively. At June 30, 2018 and 2017, the entire amount of the Project's cash and cash equivalents and restricted cash and

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

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.

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, 2018 and 2017, the allowance for doubtful accounts was \$20,195 and \$20,375, 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 and improvements 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, 2018, there has been no impairment of the capital assets.

**Rental income**

The Project's rental property is generally leased to tenants under one-year noncancelable 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, 2018 and 2017 amounted to \$10,222 and \$9,758, respectively.

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A Project of the Capitol Area Development Authority**

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

**Note 3 - Capital assets**

Information on additions and disposals of capital assets as of June 30, 2018 and 2017 are as follows:

	<u>June 30, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2018</u>
Capital assets being depreciated				
Buildings and improvements	\$ 1,696,323	\$ -	\$ -	\$ 1,696,323
Less accumulated depreciation for				
Buildings and improvements	<u>(1,463,741)</u>	<u>(27,506)</u>	<u>-</u>	<u>(1,491,247)</u>
Capital assets being depreciated, net	<u>\$ 232,582</u>	<u>\$ (27,506)</u>	<u>\$ -</u>	<u>\$ 205,076</u>
	<u>June 30, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2017</u>
Capital assets being depreciated				
Buildings and improvements	\$ 1,508,931	\$ 187,392	\$ -	\$ 1,696,323
Less accumulated depreciation for				
Buildings and improvements	<u>(1,445,604)</u>	<u>(18,137)</u>	<u>-</u>	<u>(1,463,741)</u>
Capital assets being depreciated, net	<u>\$ 63,327</u>	<u>\$ 169,255</u>	<u>\$ -</u>	<u>\$ 232,582</u>

**Note 4 - Replacement reserve**

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

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 59,441	\$ 19,272
Deposit for approved excess cash	-	2,530
Interest earned	1,471	367
Required deposits	43,299	37,272
Authorized expenses	<u>-</u>	<u>-</u>
Ending balance	<u>\$ 104,211</u>	<u>\$ 59,441</u>

**Note 5 - Note payable**

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

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

Authority recorded the note payable and recognized a loan funding obligation expense which was included in nonoperating expenses in the statement of revenue, expenses, and changes in net position for the year ended June 30, 2017. For the years ended June 30, 2018 and 2017, interest expense was \$35,917 and \$29,930, respectively. Outstanding principal and accrued interest are \$1,197,213 and \$65,847 at June 30, 2018, and \$1,197,213 and \$29,930 at June 30, 2017, respectively.

**Note 6 - Program payments**

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

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

For the fiscal years ended June 30, 2018 and 2017, the Project had a net annuity expense of \$31,947 and \$13,124, respectively. Net unexpended program payments are reported as due to HCD on the Project's statements of net position. As of June 30, 2018 and 2017, the Authority owes HCD project annuities payable of \$24,248 and \$0, respectively.

Under the terms of the new regulatory agreement, the Project is to pay HCD an annual monitoring fee of \$10,127 increasing annually based upon the consumer price index. The annual monitoring fee is subject to the Project generating sufficient cash flow. During the years ended June 30, 2018 and 2017, the Project incurred annual monitoring fees of \$10,391 and \$10,855, which are included in HCD annuities expense on the statements of revenue, expenses and changes in net position. During 2018, HCD reduced the 2017 monitoring fees by \$2,692. As of June 30, 2018 and 2017, the Project owes monitoring fees payable of \$18,554 and \$10,855 which are included in due to HCD on the statements of net position.

The activity in the due to (from) HCD account for the fiscal years ended June 30, are as follows:

	2018	2017
Due to (from) HCD, beginning	\$ 10,855	\$ (30,494)
Excess program payments for the year	6,503	(17,745)
HCD monitoring fees for the year	10,391	10,855
Excess program payment per audit	-	28,225
HCD corrections and adjustments	15,053	20,014
Due to HCD, end	\$ 42,802	\$ 10,855

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

**Note 7 - Assistance from the Authority**

The Authority has committed to provide funding to the Project to cover deficits and future capital improvement needs with additional annuities paid to the Project. During the year ended June 30, 2017, the Authority made annuity contributions to the Project of \$419,000. During the year ended June 30, 2018, \$39,608 of funding was not required and returned to the Authority.

**Note 8 - Leased property**

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

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

**Note 9 - Subsequent events**

Events that occur after the statement of net position date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of net position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of net position date, require disclosure in the accompanying notes. Management evaluated the activity of the Project through January 14, 2019, the date the financial statements were available to be issued, and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to financial statements.

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

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

<u>Account No.</u>		
	Operating revenue	
5120	Rent revenue	\$ 195,261
5121	Tenant assistance payments	-
		<hr/>
	Rental revenue	195,261
		<hr/>
	HCD annuities	
	Excess program payments	(31,947)
		<hr/>
	Net HCD annuities	(31,947)
		<hr/>
	Other revenue	
5910	Coin-operated laundry	3,276
5190	Miscellaneous	1,379
		<hr/>
	Total other revenue	4,655
		<hr/>
	Total operating revenue	167,969
		<hr/>
	Operating expenses	
	Payroll	
6330	Manager salaries	21,104
6331	Manager rent fee unit	9,228
6510	Janitor payroll	6,773
		<hr/>
	Total payroll	37,105
		<hr/>
6350	Accounting services	4,800
6320	Management fee	18,000
6210	Media	660
		<hr/>
	Total administrative	23,460
		<hr/>
	Utilities	
6450	Electricity	2,645
6452	Gas	1,000
6453	Water/Sewer	34,719
6525	Garbage	2,752
		<hr/>
	Total utilities	41,116
		<hr/>

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

<u>Account No.</u>		
	Operating and maintenance	
6515	Services and supplies	5,361
6530	Courtesy patrol	3,530
6517	Janitor and cleaning contracts	29,350
6537	Grounds Contract	1,406
6541	Repairs Material	6,113
6560	Decorating and painting	281
6590	Misc. Ops. And Maint. Expense	9,288
		<hr/>
	Total operating and maintenance	55,329
		<hr/>
	Insurance and taxes	
6729	Insurance	5,406
6710	Property taxes	1,715
		<hr/>
	Total insurance and taxes	7,121
		<hr/>
	Depreciation	27,506
		<hr/>
	Total operating expenses	191,637
		<hr/>
	Operating income	(23,668)
		<hr/>
	Non-operating revenue	
5990	CADA Annuity	(39,608)
5410	Interest income	4,224
5420	Interest expense	(35,917)
		<hr/>
	Change in net position	\$ (94,969)
		<hr/> <hr/>
	Reconciliation to Form 180	
	Total operating revenues	\$ 167,969
	Interest income	4,224
	Less interest income for equipment reserve	(1,471)
	Less annuities and excess program payments	31,947
	Less difference for allocation calculation	5
		<hr/>
	Effective gross rent from form 180	\$ 202,674
		<hr/> <hr/>
	Total expenses	\$ 191,637
	Less depreciation	(27,506)
	Less difference for allocation calculation	(1)
		<hr/>
	Total operating cost from form 180	\$ 164,130
		<hr/> <hr/>

**Somerset Parkside Apartments  
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**Supplementary Information  
Year Ended June 30, 2018**

**Insurance**

Insurance premiums are current as of June 30, 2018. The annual renewal policy was paid before the due date.

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Project Name: Somerset Parkside

Contract #: 15-LPR-0005

Sponsor's Name: Capitol Area Development Authority

Project Fiscal Year: 2017-18

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

Diana Rutley  
\_\_\_\_\_  
Printed Name

Property Manager  
\_\_\_\_\_  
Title

1/11/2019  
\_\_\_\_\_  
Date



Explanation of other Withdrawals:

ADDITIONAL REQUESTED INFORMATION FOR FY:

2017-18

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?			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			Not Applicable
8. <b>Debt:</b> Has additional indebtedness been incurred? (If "YES", explain what, when and		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	X		

**Rental Housing Construction Program -- Original**

**6. AMC 180a - ACTUAL COST OF OPERATIONS - Operating Budget/Annual Report**

Contract No: 80-RHC-007

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

Project Name: Somerset Parkside

Prepared by:

Date Prepared:

Rev 9/28/16

ACCOUNT NAME	ACCOUNT CODES	UNIT EXPENSES					
		Approved Assisted (A)	Actual Assisted	Approved Non-Assisted	Actual Non-Assisted	Proposed Commercial	Actual Commercial
<b>MANAGEMENT FEE: 6200/6300</b>							
1 Management Fee or Sponsor Overhead	6320	11,769	9,000	6,231	9,000	0	0
<b>ADMINISTRATIVE EXPENSES: 6200/6300</b>							
2 Advertising	6210	432	330	228	330	0	0
3 Apartment Resale Expense (Cooperatives)	6235	0	0	0	0	0	0
4 Other Renting Expenses	6250	65	0	35	0	0	0
5 Office Salaries	6310	0	0	0	0	0	0
6 Office Supplies	6311	0	0	0	0	0	0
7 Office or Model Apartment Rent	6312	0	0	0	0	0	0
8 Manager and Superintendent Salaries	6330	13,799	10,552	7,305	10,552	0	0
9 Manager's or Superintendent's Rent Free Unit	6331	0	0	9,228	9,228	0	0
10 Legal Expense - Project	6340	654	0	346	0	0	0
11 Audit Expense - Project	6350	2,550	2,400	1,350	2,400	0	0
12 Bookkeeping Fees/Accounting Services	6351	0	0	0	0	0	0
13 Telephone and Answering Service Expenses	6360	0	0	0	0	0	0
14 Bad Debt Expense	6370	0	0	0	0	0	0
15 Miscellaneous Administrative Expenses (specify)	6390	0	0	0	0	0	0
<b>16 TOTAL ADMINISTRATIVE EXPENSES 6200/6300T</b>	<b>6200/6300T</b>	<b>17,500</b>	<b>13,282</b>	<b>18,492</b>	<b>22,510</b>	<b>0</b>	<b>0</b>
<b>UTILITIES EXPENSES: 6400</b>							
17 Fuel Oil/Coal	6420	0	0	0	0	0	0
18 Electricity	6450	2,615	1,322	1,385	1,322	0	0
19 Water	6451	0	0	0	0	0	0
20 Gas	6452	981	500	519	500	0	0
21 Sewer	6453	21,577	17,360	11,423	17,360	0	0
<b>22 TOTAL UTILITIES EXPENSES 6400T</b>	<b>6400T</b>	<b>25,173</b>	<b>19,182</b>	<b>13,327</b>	<b>19,182</b>	<b>0</b>	<b>0</b>
<b>OPERATING AND MAINTENANCE EXPENSES: 6500</b>							
23 Janitor and Cleaning Payroll	6510	5,051	3,386	2,674	3,386	0	0
24 Janitor and Cleaning Supplies	6515	2,942	2,681	1,558	2,681	0	0
25 Janitor and Cleaning Contracts	6517	7,846	14,675	4,154	14,675	0	0
26 Exterminating Payroll/Contract	6519	0	0	0	0	0	0
27 Exterminating Supplies	6520	0	0	0	0	0	0
28 Garbage and Trash Removal	6525	2,288	1,376	1,212	1,376	0	0
29 Security Payroll/Contract	6530	2,308	1,765	1,222	1,765	0	0
30 Grounds Payroll	6535	0	0	0	0	0	0
31 Grounds Supplies	6536	0	0	0	0	0	0
32 Grounds Contract	6537	915	703	485	703	0	0
33 Repairs Payroll	6540	0	0	0	0	0	0
34 Repairs Material	6541	4,642	3,056	2,458	3,056	0	0
35 Repairs Contract	6542	0	0	0	0	0	0
36 Elevator Maintenance/Contract	6545	0	0	0	0	0	0
37 Heating/Cooling Repairs and Maintenance	6546	0	0	0	0	0	0
38 Swimming Pool Maintenance/Contract	6547	0	0	0	0	0	0
39 Snow Removal	6548	0	0	0	0	0	0
40 Decorating/Payroll Contract	6560	3,596	141	1,904	141	0	0
41 Decorating Supplies	6561	0	0	0	0	0	0
42 Vehicle and Maint. Equipment Operation/Repairs	6570	0	0	0	0	0	0
43 Misc. Operating and Maintenance Expenses (specify)	6590	0	4,644	0	4,644	0	0
<b>44 TOTAL OPERATING &amp; MAINTENANCE EXPENSES 6500T</b>	<b>6500T</b>	<b>29,590</b>	<b>32,427</b>	<b>15,665</b>	<b>32,427</b>	<b>0</b>	<b>0</b>
<b>TAXES AND INSURANCE: 6700</b>							
45 Real Estate Taxes	6710	768	857	407	857	0	0
46 Payroll Taxes (Project's Share)	6711	0	0	0	0	0	0
47 Misc. Taxes, Licenses and Permits	6719	0	0	0	0	0	0
48 Property and Liability Insurance (Hazard)	6720	6,538	2,703	3,462	2,703	0	0
49 Fidelity Bond Insurance	6721	0	0	0	0	0	0
50 Worker's Compensation	6722	0	0	0	0	0	0
51 Health Insurance and Other Employee Benefits	6723	0	0	0	0	0	0
52 Other Insurance	6729	0	0	0	0	0	0
<b>53 TOTAL TAXES AND INSURANCE 6700T</b>	<b>6700T</b>	<b>7,307</b>	<b>3,560</b>	<b>3,868</b>	<b>3,560</b>	<b>0</b>	<b>0</b>
<b>ASSISTED LIVING/BOARD &amp; CARE EXPENSES: 6900</b>							
54 Food	6932	0	0	0	0	0	0
55 Recreation and Rehabilitation	6980	0	0	0	0	0	0
56 Rehabilitation Salaries	6983	0	0	0	0	0	0
57 Other Service Expenses	6990	0	0	0	0	0	0
<b>58 TOTAL ASSISTED LIVING EXPENSES 6900T</b>	<b>6900T</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>91,338</b>	<b>77,451</b>	<b>57,584</b>	<b>86,679</b>	<b>0</b>	<b>0</b>
<b>Line#</b>	<b>For each account below, itemize the expenses (total will flow to account above)</b>						<b>Amount</b>
	<b>Account 6390 Miscellaneous Administrative Expenses</b>						
62							
63							
64							
65							
66	<b>Total Account 6390 Miscellaneous Administrative Expenses</b>						<b>\$0</b>
	<b>Account 6590 Miscellaneous Operations &amp; Maintenance Expenses</b>						
67	Cabinets						\$1,624
68	Countertops						\$3,622
69	Water Heater repair						\$4,042
70							
71	<b>Total Account 6590 Miscellaneous Operations &amp; Maintenance Expenses</b>						<b>\$9,288</b>
	<b>Account 6729 Other Insurance</b>						
72							
73	<b>Total Account 6729 Other Insurance</b>						<b>\$0</b>

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

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

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

Units/Sq. Ft. - Assisted: 17  
 Units/Sq. Ft. - Total: 26

Rev 9/28/16

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	103,092	93,365	94,752	93,365	0	0	197,844	186,730	(11,114)
2 Tenant Assistance Payments	5121	16,476	8,532	0	0	0	0	16,476	8,532	(7,944)
3 Rent revenue - Stores and Commercial	5140	0	0	0	0	0	0	0	0	0
4 Garage and Parking Spaces	5170	0	0	0	0	0	0	0	0	0
5 Flexible Subsidy Revenue	5185	0	0	0	0	0	0	0	0	0
6 Miscellaneous Rent Revenue	5190	0	689	0	689	0	0	0	1,378	1,378
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>119,568</b>	<b>102,586</b>	<b>94,752</b>	<b>94,054</b>	<b>0</b>	<b>0</b>	<b>214,320</b>	<b>196,640</b>	<b>(17,680)</b>
<b>VACANCIES: 5200</b>										
<b>Vacancy Percentage:</b>										
11 Apartments -	5220	0	0	0	0	0	0	0	0	0
12 Stores and Commercial	5240	0	0	0	0	0	0	0	0	0
13 Rental Concessions	5250	0	0	0	0	0	0	0	0	0
14 Garage and Parking Spaces	5270	0	0	0	0	0	0	0	0	0
15 Miscellaneous	5290	0	0	0	0	0	0	0	0	0
<b>Total Vacancies (HCD Use Only)</b>	<b>5200T</b>	<b>3,093</b>	<b>0</b>	<b>4,738</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7,830</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
<b>Total Living Revenue</b>	<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	623	1,379	277	1,379	0	0	900	2,758	1,858
<b>Total Financial Revenue</b>	<b>5400T</b>	<b>623</b>	<b>1,379</b>	<b>277</b>	<b>1,379</b>	<b>0</b>	<b>0</b>	<b>900</b>	<b>2,758</b>	<b>1,858</b>
<b>OTHER REVENUE: 5900</b>										
22 Laundry and Vending Revenue	5910	2,257	1,638	1,003	1,638	0	0	3,260	3,276	16
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
<b>Total Other Revenue</b>	<b>5900T</b>	<b>2,257</b>	<b>1,638</b>	<b>1,003</b>	<b>1,638</b>	<b>0</b>	<b>0</b>	<b>3,260</b>	<b>3,276</b>	<b>16</b>
<b>27 EFFECTIVE GROSS RENT (EGR)</b>	<b>5152T</b>	<b>119,355</b>	<b>105,603</b>	<b>91,294</b>	<b>97,071</b>	<b>0</b>	<b>0</b>	<b>210,650</b>	<b>202,674</b>	<b>(7,976)</b>
<b>28 TOTAL OPERATING EXPENSES</b>	<b>6000T</b>	<b>94,079</b>	<b>77,451</b>	<b>59,311</b>	<b>86,679</b>	<b>0</b>	<b>0</b>	<b>153,390</b>	<b>164,130</b>	<b>(10,741)</b>
<b>29 NET OPERATING INCOME (NOI)</b>	<b>5000T</b>	<b>25,277</b>	<b>28,152</b>	<b>31,983</b>	<b>10,392</b>	<b>0</b>	<b>0</b>	<b>57,260</b>	<b>38,544</b>	<b>(18,716)</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	10,127	0	0	0	10,127	0	10,127
32 Lease Payment	6890	0	0	0	0	0	0	0	0	0
33 Miscellaneous Financial Expenses	6890	0	0	0	0	0	0	0	0	0
<b>Total Financial Expenses</b>	<b>6800T</b>	<b>0</b>	<b>0</b>	<b>10,127</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>10,127</b>	<b>0</b>	<b>10,127</b>
<b>FUNDED RESERVES:</b>										
34 Escrow Deposits	1310	0	0	0	0	0	0	0	0	0
35 Replacement Reserve-Deposit	1320	29,976	21,649	13,323	21,650	0	0	43,299	43,299	0
36 Operating Reserve-Deposit	1300	0	0	0	0	0	0	0	0	0
37 Other Reserves (specify)		0	0	0	0	0	0	0	0	0
#1	1330	0	0	0	0	0	0	0	0	0
#2	1330	0	0	0	0	0	0	0	0	0
#3	1330	0	0	0	0	0	0	0	0	0
<b>Total Reserve Deposits</b>		<b>29,976</b>	<b>21,649</b>	<b>13,323</b>	<b>21,650</b>	<b>0</b>	<b>0</b>	<b>43,299</b>	<b>43,299</b>	<b>0</b>
<b>38 PROJECT CASH FLOW (CF)</b>		<b>(4,699)</b>	<b>6,503</b>	<b>8,533</b>	<b>(11,258)</b>	<b>0</b>	<b>0</b>	<b>3,834</b>	<b>(4,755)</b>	<b>(8,589)</b>
<b>ADDITIONAL REVENUE:</b>										
39 RHCP-O Annuity Fund Request (For Assisted Units Only)		4,699	0	0	0	0	0	4,699	0	(4,699)
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
<b>Total Additional Revenue</b>		<b>4,699</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,699</b>	<b>0</b>	<b>(4,699)</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
<b>Total Use of Cash Flow</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>

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

Board of Directors  
Capitol Area Development Authority  
Sacramento, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Somerset Parkside Apartments (Contract Numbers 80-RHC-007 and 15-LPR-005) ("Project"), a project of the Capitol Area Development Authority ("Authority") which comprise the statement of net position as of June 30, 2018, and the related statements of revenue, expenses and changes in net position and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated January 14, 2019.

#### Internal Control over Financial Reporting

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

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

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

#### Compliance and Other Matters

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

Purpose of this Report

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

*CohnReznick LLP*

Sacramento, California  
January 14, 2019

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