

**CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT**

**NORWOOD AVENUE HOUSING CORPORATION
AND AFFILIATED ENTITIES,
A COMPONENT UNIT OF THE SACRAMENTO
HOUSING AND REDEVELOPMENT AGENCY**

December 31, 2016 and 2015

NORWOOD AVENUE HOUSING CORPORATION AND AFFILIATED ENTITIES,
A COMPONENT UNIT OF THE SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

December 31, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Norwood Avenue Housing Corporation and Affiliated Entities,
A Component Unit of the Sacramento Housing and Redevelopment Agency

Report on the Financial Statements

We have audited the consolidated statements of financial position of Norwood Avenue Housing Corporation and Affiliated Entities, a Component Unit of the Sacramento Housing and Redevelopment Agency (the Corporation), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, comprehensive income, net assets, and cash flows for the years then ended and the related notes to the consolidated 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 of 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.

To the Board of Directors
Norwood Avenue Housing Corporation and Affiliated Entities,
A Component Unit of the Sacramento Housing and Redevelopment Agency

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 Norwood Avenue Housing Corporation and Affiliated Entities as of December 31, 2016 and 2015, and the results of its operations, changes in net assets – unrestricted, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2017 on our consideration of the Corporation's internal control over financial reporting and 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 Corporation's internal control over financial reporting and compliance.

Richardson & Company, LLP

March 29, 2017

NORWOOD AVENUE HOUSING CORPORATION AND AFFILIATED ENTITIES,
A COMPONENT UNIT OF THE SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,840,769	\$ 1,843,964
Tenant accounts receivable, net	22,957	20,299
Accounts receivable - other	33,275	15,717
Prepaid expenses	78,823	32,467
	<u>1,975,824</u>	<u>1,912,447</u>
DEPOSITS HELD IN TRUST - FUNDED		
Tenant security deposits	<u>167,000</u>	<u>161,500</u>
RESTRICTED DEPOSITS		
Replacement reserve	900,787	821,627
Operating deficit reserve	909,357	909,083
Bond proceeds reserve	<u>54,567</u>	<u>84,877</u>
	<u>1,864,711</u>	<u>1,815,587</u>
RENTAL PROPERTY		
Land, buildings and improvements	67,843,336	67,843,336
Land improvements	7,430,690	7,430,690
Furniture and equipment	<u>1,291,385</u>	<u>1,291,385</u>
	76,565,411	76,565,411
Accumulated depreciation	<u>(25,068,028)</u>	<u>(23,032,110)</u>
	<u>51,497,383</u>	<u>53,533,301</u>
OTHER ASSETS		
Tax credit monitoring fees, net	54,766	76,064
Developer fee receivable	493,000	493,000
Deposits	<u>1,373</u>	<u>1,373</u>
	<u>547,766</u>	<u>570,437</u>
TOTAL ASSETS	<u><u>\$ 56,052,684</u></u>	<u><u>\$ 57,993,272</u></u>

(continued)

NORWOOD AVENUE HOUSING CORPORATION AND AFFILIATED ENTITIES,
A COMPONENT UNIT OF THE SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - CONTINUED

December 31, 2016 and 2015

	2016	2015
CURRENT LIABILITIES		
Accounts payable	\$ 60,222	\$ 92,065
Accrued expenses	59,600	80,606
Prepaid rent	22,612	19,260
Due to affiliates	77,636	108,644
Deferred income	50,500	
Accrued interest payable - first mortgage and bonds	58,294	59,733
Current maturities of long-term debt - first mortgages and bonds	254,775	635,607
Current maturities of long-term debt - other mortgages		162,962
Accrued interest rate swap interest	1,800	1,800
	<u>585,439</u>	<u>1,160,677</u>
DEPOSITS LIABILITY		
Tenant security deposits	<u>167,000</u>	<u>161,000</u>
LONG-TERM LIABILITIES		
Mortgages and bonds payable, net of current maturities - first mortgage	11,356,188	11,607,991
Mortgages payable, net of current maturities - other mortgages	22,119,370	22,233,172
Accrued interest payable	7,399,222	6,806,514
Interest rate swap fair value	773,540	1,064,331
	<u>41,648,320</u>	<u>41,712,008</u>
TOTAL LIABILITIES	42,400,759	43,033,685
NET ASSETS - UNRESTRICTED		
CONTROLLING	3,100,502	3,038,076
NON-CONTROLLING	<u>10,551,423</u>	<u>11,921,511</u>
Total net assets - unrestricted	<u>13,651,925</u>	<u>14,959,587</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 56,052,684</u></u>	<u><u>\$ 57,993,272</u></u>

See notes to consolidated financial statements

NORWOOD AVENUE HOUSING CORPORATION AND AFFILIATED ENTITIES,
A COMPONENT UNIT OF THE SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Rental revenue		
Rental income	\$ 4,400,853	\$ 4,377,005
Vacancies and concessions	(122,928)	(156,572)
Other operating income	<u>118,710</u>	<u>97,329</u>
Total rental revenue, net	<u>4,396,635</u>	<u>4,317,762</u>
Rental - operating expenses		
Administrative	765,402	716,879
Operating and maintenance	937,735	824,463
Utilities	437,048	419,032
Taxes and insurance	<u>292,339</u>	<u>321,833</u>
Total operating expenses	<u>2,432,524</u>	<u>2,282,207</u>
Net rental operating income	<u>1,964,111</u>	<u>2,035,555</u>
Rental - other income (expense)		
Interest income	2,546	2,778
Interest expense - first mortgage and bonds	(673,070)	(706,683)
Interest expense - other loans	(617,687)	(615,763)
Other financial expense	(85,244)	(78,146)
Depreciation	(2,014,143)	(2,014,143)
Amortization	<u>(21,298)</u>	<u>(21,298)</u>
Total other income (expense)	<u>(3,408,896)</u>	<u>(3,433,255)</u>
Net decrease in net assets from rental activities	<u>(1,444,785)</u>	<u>(1,397,700)</u>

(continued)

NORWOOD AVENUE HOUSING CORPORATION AND AFFILIATED ENTITIES,
A COMPONENT UNIT OF THE SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

CONSOLIDATED STATEMENTS OF ACTIVITIES - CONTINUED

Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Corporate revenues		
Interest income	<u>\$ 201</u>	<u>\$ 202</u>
Total corporate revenue	201	202
Corporate expenses		
Professional services	14,237	13,850
Directors' and officers insurance	1,175	1,057
Permits and fees	80	36
Other expense	85,048	85,000
Depreciation	<u>21,775</u>	<u>21,774</u>
Total corporate expenses	<u>122,315</u>	<u>121,717</u>
Net decrease in net assets from corporate activities	<u>(122,114)</u>	<u>(121,515)</u>
TOTAL DECREASE IN NET ASSETS - UNRESTRICTED	<u><u>\$ (1,566,899)</u></u>	<u><u>\$ (1,519,215)</u></u>
Total decrease in unrestricted net assets comprised of:		
Non-controlling interest	\$ (1,629,296)	\$ (1,569,820)
Controlling interest	<u>62,397</u>	<u>50,605</u>
	<u><u>\$ (1,566,899)</u></u>	<u><u>\$ (1,519,215)</u></u>

See notes to consolidated financial statements

NORWOOD AVENUE HOUSING CORPORATION AND AFFILIATED ENTITIES,
A COMPONENT UNIT OF THE SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Net loss	\$ (1,566,899)	\$ (1,519,215)
Other comprehensive income		
Change in fair value of interest rate swap:		
Unrealized gain arising during the period	<u>290,791</u>	<u>92,640</u>
Total other comprehensive income	<u>290,791</u>	<u>92,640</u>
Comprehensive income	<u><u>\$ (1,276,108)</u></u>	<u><u>\$ (1,426,575)</u></u>

See notes to consolidated financial statements

NORWOOD AVENUE HOUSING CORPORATION AND AFFILIATED ENTITIES,
A COMPONENT UNIT OF THE SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS - UNRESTRICTED

Years ended December 31, 2016 and 2015

	Norwood Avenue Housing Corporation	Controlling Accumulated other comprehensive loss	Total	Non-controlling Interest Total	Consolidated Total
Balance, January 1, 2015	\$ 2,987,578	\$ (116)	\$ 2,987,462	\$ 13,429,857	\$ 16,417,319
Decrease in fair value of interest rate swap		9	9	92,631	92,640
Distributions				(31,157)	(31,157)
Increase (decrease) in net assets - unrestricted	50,605		50,605	(1,569,820)	(1,519,215)
Balance, December 31, 2015	3,038,183	(107)	3,038,076	11,921,511	14,959,587
Decrease in fair value of interest rate swap		29	29	290,762	290,791
Distributions				(31,554)	(31,554)
Increase (decrease) in net assets - unrestricted	62,397		62,397	(1,629,296)	(1,566,899)
Balance, December 31, 2016	<u>\$ 3,100,580</u>	<u>\$ (78)</u>	<u>\$ 3,100,502</u>	<u>\$ 10,551,423</u>	<u>\$ 13,651,925</u>

See notes to consolidated financial statements

NORWOOD AVENUE HOUSING CORPORATION AND AFFILIATED ENTITIES,
A COMPONENT UNIT OF THE SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Decrease in net assets - unrestricted	\$ (1,566,899)	\$ (1,519,215)
Adjustments to reconcile decrease in unrestricted net assets to net cash provided by operating activities		
Depreciation	2,035,918	2,035,917
Amortization	21,298	21,298
Amortization of mortgage fees included in interest expense	10,957	10,957
Changes in:		
Tenant accounts receivable, net	(2,658)	(13,157)
Accounts receivable - other	(17,558)	39,640
Deposits	1,373	903
Prepaid expenses	(68,825)	62,445
Accounts payable	(31,843)	(104,150)
Accrued expenses	(21,006)	2,538
Deferred income	50,500	
Accrued interest	591,269	575,398
Tenant security deposits	500	
Prepaid rent	3,352	(13,128)
Net cash provided by operating activities	<u>1,006,378</u>	<u>1,099,446</u>
Cash flows from investing activities		
Deposits to reserves	(625,583)	(672,482)
Withdrawals from reserves	<u>576,459</u>	<u>655,580</u>
Net cash provided by investing activities	<u>(49,124)</u>	<u>(16,902)</u>
Cash flows from financing activities		
Principal payments on mortgages and bonds payable - first mortgage	(632,635)	(667,046)
Principal payments on mortgages payable - other mortgage	(287,721)	(311,170)
Distribution to partners	<u>(40,093)</u>	
Net cash used in financing activities	<u>(960,449)</u>	<u>(978,216)</u>
Net (decrease)/increase in cash and cash equivalents	(3,195)	104,328
Cash and cash equivalents, beginning	<u>1,843,964</u>	<u>1,739,636</u>
Cash and cash equivalents, ending	<u>\$ 1,840,769</u>	<u>\$ 1,843,964</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 688,531</u>	<u>\$ 736,091</u>
Change in fair market value of interest rate swap	<u>\$ 290,791</u>	<u>\$ 92,640</u>

See notes to consolidated financial statements

NORWOOD AVENUE HOUSING CORPORATION AND AFFILIATED ENTITIES,
A COMPONENT UNIT OF THE SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE A - ORGANIZATION AND NATURE OF OPERATIONS

The Norwood Avenue Housing Corporation and Affiliated Entities, A Component Unit of the Sacramento Housing and Redevelopment Agency, (the Corporation), is a non-profit non-stock public benefit corporation established on September 11, 1991 to develop and advance the social, economic and charitable welfare of the community and to improve the living conditions of low- and moderate-income people through the acquisition, development, rehabilitation, and management of affordable housing. Operations consists of the rental of two low-income housing projects and the management of its partnership investments in affordable housing properties.

The Executive Director of the Sacramento Housing and Redevelopment Agency (the Agency) appoints the Corporation's Board of Directors, which approves the annual budget and amendments to the Articles of Incorporation and Bylaws. Upon future dissolution of the Corporation, remaining assets will revert to the Agency. Accordingly, the Corporation is considered to be a governmental unit for financial reporting purposes. Although the Corporation is legally separate from the Agency, governmental accounting standards require the Corporation to be reported as a component unit of the Agency for financial reporting purposes.

Financial Statements Presentation: The Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Furthermore, information is required to segregate program service expenses from management and general expenses. Income earnings on temporarily restricted net assets are recognized as unrestricted.

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted depending on the existence and/or nature of any donor restrictions. The Corporation has no temporarily or permanently restricted net assets.

Principles of Consolidation: The consolidated financial statements include the accounts of the Corporation and two of its affiliates. All significant inter-company transactions and balances have been eliminated in consolidation.

The following affiliated limited partnerships (the Partnerships) in which the Corporation holds a general partnership interest are as follows.

- The Corporation owns a 0.01% interest in Phoenix Park I, L.P, a low-income housing apartment project located in Sacramento, California, with 178 units.
- The Corporation owns a 0.01% interest in Phoenix Park II, L.P, a low-income housing apartment project located in Sacramento, California, with 182 units.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting of Basis: The financial statements have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America. Accordingly, income is recognized as earned and expenses as incurred, regardless of the timing of payments.

NORWOOD AVENUE HOUSING CORPORATION AND AFFILIATED ENTITIES,
A COMPONENT UNIT OF THE SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in Limited Partnerships: The Corporation has a limited partnership interest in another tax credit partnership and accounts for its investment using the equity method of accounting. Under the equity method of accounting, the investment is recorded at cost and increased by the Corporation's share of the Partnership's earnings and contributions and decreased by the Corporation's share of the Partnerships' losses and distributions. Under the equity method, losses from the Partnerships in which the Corporation has not been required to fund operating deficit obligations are no longer recognized once the balance in the investment account reaches zero. Any additional losses are suspended and will be recorded only to the extent that the related investment reports future income.

The Corporation does not consolidate the accounts and activities of the Partnership in which it holds a limited partnership interest, because the Partnership is controlled by its general partner who has the power to direct the activities of the Partnership. The Corporation's balance in investment in Partnership represents the maximum exposure to loss in connection with such investments. The Corporation's exposure to loss on the Investee Partnership is mitigated by the condition and the financial performance of the underlying Property as well as the strength of the general partner of the Partnership. See Note F.

Cash Equivalents: All highly-liquid instruments with an original maturity of three months or less are considered to be cash equivalents.

Restricted Deposits: In accordance with loan and partnership agreements, the Corporation is required to set aside amounts for the replacement of property and other project expenditures. Restricted deposits are held in separate accounts and generally are not available for operating purposes.

Tenant Accounts Receivable: Tenant accounts receivable are charged to bad debts expense when they are determined to be uncollectible based upon the periodic review of the accounts by management. U.S. generally accepted accounting principles (GAAP) require that the allowance method be used to recognize bad debts; however the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Rental Property: Rental property is carried at cost and includes all direct costs of development and construction. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful service lives ranging from 5 to 40 years using the straight-line method. Maintenance and repair costs are charged to operating expenses as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. Any resulting gains and losses are reflected in the statement of operations.

Impairment of Long-Lived Assets: The Corporation reviews its investment in rental property for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the property are less than its carrying amount, management compares the carrying amount of the property to its fair value in order to determine whether an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss was recognized during the years ended December 31, 2016 and 2015.

NORWOOD AVENUE HOUSING CORPORATION AND AFFILIATED ENTITIES,
A COMPONENT UNIT OF THE SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative Instruments: Derivative financial instruments entered into by a consolidated limited partnership in which the Corporation is the general partner are carried at fair value on the consolidated statement of financial position. Changes in fair value are estimated and allocated to controlling and non-controlling interests based on the percentages of partnership interest. Amounts allocated to controlling interest are recorded through the consolidated statement of changes in net assets - unrestricted.

Fair Value Measurement: The consolidated limited partnership interest rate swap agreement on debt is valued at the net present value of future cash flows attributable to the difference between the contractual variable and fixed rate per the agreement.

Deferred Costs and Amortization: Costs related to obtaining low-income housing tax credits are being amortized over the mandatory 15-year tax credit compliance period using the straight-line method. As of December 31, 2016 and 2015, accumulated amortization of tax credit monitoring fees was \$264,698 and \$243,400, respectively.

Estimated amortization expense is \$21,298 per year through December 31, 2018, and \$12,170 in 2019.

Non-Controlling Interest: The amount included in Non-controlling Interest in the consolidated statement of financial position represents the balance of the Corporation's limited partners' equity interest in the Partnerships.

Rental Income: Residential rental income is recognized as rents become due. Rental payments received in advance are deferred until earned. All leases between the Corporation and tenants of the property are operating leases.

Advertising and Marketing Costs: Advertising and marketing costs are expensed as incurred.

Use of Estimates: The preparation of financial statements require 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.

Income Taxes: The Corporation has applied for and received a determination letter from the Internal Revenue Service (IRS) to be treated as a tax exempt entity pursuant to Section 501(c)(3) of the Internal Revenue Code. For the years ended December 31, 2016 and 2015, management believes that all activities of the Corporation were within its tax exempt guidelines and the Corporation did not have any unrelated business income. The Corporation is required to file tax returns with the IRS and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes and the Corporation has no other tax positions which must be considered for disclosure.

The Corporation's federal returns for the years ended December 31, 2015, 2014, and 2013 could be subject to examination by federal taxing authorities, generally for three years after they are filed. The Corporation's state returns for the years ended December 31, 2015, 2014, 2013, and 2012 could be subject to examination by state taxing authorities, generally for four years after they are filed.

NORWOOD AVENUE HOUSING CORPORATION AND AFFILIATED ENTITIES,
A COMPONENT UNIT OF THE SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The consolidated partnerships are pass-through entities for income tax purposes and are not subject to income taxes. All items of taxable income, deductions and tax credits are passed through to, and are reported by, their owners on their respective income tax returns. The Partnerships' federal tax status as pass-through entities is based on their legal status as partnerships. The Partnerships are required to file tax returns with the Internal Revenue Service and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes and the Partnerships have no other tax positions which must be considered for disclosure.

Subsequent Events: The Corporation evaluated all events or transactions that occurred after December 31, 2016 and up to March 29, 2017, the date the financial statements were issued. During this period, the Partnership did not have any recognizable or nonrecognizable subsequent events.

New Pronouncements: During 2016, the Partnership adopted the provisions of Accounting Standards Update 2015-03, Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03). Under this new accounting policy, the Partnership has retrospectively presented all debt issuance costs as a direct deduction from the carrying amount of the related obligation in the balance sheet. Accounting principles generally accepted in the United States of America require that the effective yield method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different for the results that would have been obtained under the effective yield method. The amortization of the debt issuance costs is included as a component of interest expense. The effects of the retrospective application of the accounting change on the year ended December 31, 2016 and 2015 is to decrease the total assets and long-term liabilities by \$201,851 and \$212,808, respectively, in the balance sheet and reclassify \$10,957 of amortization to interest expense in the statement of operations.

NOTE C - HOUSING ASSISTANCE PAYMENT CONTRACT AGREEMENT

The Housing Authority of the City of Sacramento has contracted with the Corporation to make housing assistance payments to the Corporation on behalf of qualified tenants. There are two agreements, one for Phoenix Park I that expires February 19, 2034 and one for Phoenix Park II that expires on December 31, 2029. During the years ended December 31, 2016 and 2015, the Corporation received housing assistance payments of \$2,937,978 and \$2,904,966, respectively, which are included as rental income in the consolidated statement of activities.

NOTE D - MANAGEMENT FEE

The Corporation has entered into agreements with the John Stewart Company, an unrelated party, to provide services in connection with the rent-up, leasing and operation of the Partnerships. Management fees are charged at \$17,280 and \$16,920 per month during the years ended December 31, 2016 and 2015, respectively. Management fees incurred and charged to operations during the years ended December 31, 2016 and 2015, were \$207,360 and \$203,040, respectively. In addition, the John Stewart Company charges the Corporation a bookkeeping fee of \$3,240 per month. Bookkeeping fees incurred and charged to operations during the years ended December 31, 2016 and 2015 were \$41,040 and \$38,880, respectively, and are included in miscellaneous operating expenses on the statement of operations.

NORWOOD AVENUE HOUSING CORPORATION AND AFFILIATED ENTITIES,
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE E - RELATED PARTY TRANSACTIONS

Developer Fee: The Corporation entered into developer agreements to provide services to Phoenix Park I, L.P. and Phoenix Park II, L.P. (the Projects) for oversight of the Projects' construction with fees of \$1,200,000 and \$2,500,000, respectively. The developer fees were paid off during the year ended December 31, 2012.

The Corporation in turn entered into an agreement for staffing and administrative services with the Agency to provide the necessary resources to oversee the Projects' construction. In consideration for such services, the Corporation has agreed to pay the Agency an amount that consists of 100% of the payments the Corporation receives from the aforementioned developer fee agreements with the Projects. As of December 31, 2015, the related payable was \$21,969 and is included in due to affiliates on the consolidated statement of financial position. This amount was paid during 2016 so there was no payable outstanding as of December 31, 2016.

Compensation: According to the Memorandum of Understanding for Funding and Administrative Services Agreement as of June 5, 2012, the Corporation is to reimburse the Agency on an annual basis \$85,000 as payment for staff services used to support ongoing operations and existing project oversight. The fee shall be paid on a lump sum basis within 90 days of fiscal year end. Payments of \$85,000 were made to the Agency during 2016 and 2015.

NOTE F - INVESTMENT IN LIMITED PARTNERSHIP

On November 1, 2009, the Corporation was admitted as the sole limited partner of Shasta Hotel Investors, LP, which was formed for the purpose of constructing and operating an 80-unit affordable rental housing project in Sacramento, California. The Corporation replaced the withdrawing limited partner and in exchange received a 99% limited partner interest.

The losses to Norwood Avenue Housing Corporation were suspended as it exceeds its Investment in the Shasta Hotel Investors, LP.

The summarized balance sheet as of December 31, 2016 and 2015 and the statements of operations for the years then ended of Shasta Hotel Investors, LP is as follows:

	2016	2015
Cash and cash equivalents	\$ 196,965	\$ 109,396
Accounts receivable - tenants and subsidy	7,043	6,802
Reserves	2,088	2,084
Other assets	34,701	34,044
Property and equipment	4,499,444	4,499,444
Less accumulated depreciation	(3,596,275)	(3,431,009)
Total assets	<u>\$ 1,143,966</u>	<u>\$ 1,220,761</u>

NORWOOD AVENUE HOUSING CORPORATION AND AFFILIATED ENTITIES,
A COMPONENT UNIT OF THE SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE F - INVESTMENT IN LIMITED PARTNERSHIP (Continued)

	<u>2016</u>	<u>2015</u>
LIABILITIES		
Accounts payable	\$ 46,843	\$ 56,115
Notes payable	2,000,000	2,000,000
Interest payable	1,383,684	1,323,684
Other liabilities	<u>115,495</u>	<u>96,835</u>
Total liabilities	<u>3,546,022</u>	<u>3,476,634</u>
PARTNERS' EQUITY (DEFICIT)		
Norwood Avenue Housing Corporation	(1,370,335)	(1,225,614)
Other partners	<u>(1,031,721)</u>	<u>(1,030,259)</u>
Total partners' deficit	<u>(2,402,056)</u>	<u>(2,255,873)</u>
Total liabilities and partners' equity (deficit)	<u>\$ 1,143,966</u>	<u>\$ 1,220,761</u>
	<u>2016</u>	<u>2015</u>
Revenue	\$ 632,604	\$ 508,171
Expenses	<u>778,787</u>	<u>778,492</u>
Net loss	<u>\$ (146,183)</u>	<u>\$ (270,321)</u>
Net loss allocated to the Corporation	<u>\$ (144,721)</u>	<u>\$ (267,618)</u>
Net loss allocated to other partners	<u>\$ (1,462)</u>	<u>\$ (2,703)</u>

NOTE G – DEVELOPMENT FEE

According to the Assignment and Assumption Agreement between JHC-Hotel Berry LLC, a California Limited Liability Company, and Norwood Avenue Housing Corporation, a development fee is to be paid to the Corporation in the amount of \$493,000 from JHC in consideration of the predevelopment activities performed by the Corporation in connection with the entitlement development rehabilitation of the Hotel Berry Project. The amount was not received as of December 31, 2016 and 2015 and was accrued as a receivable.

NORWOOD AVENUE HOUSING CORPORATION AND AFFILIATED ENTITIES,
A COMPONENT UNIT OF THE SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE H - MORTGAGES AND BONDS PAYABLE

The Corporation's mortgages and bonds payable consist of the following at December 31:

	2016	2015
<u>First Mortgages and Bonds</u>		
Permanent "Tax Credit" note dated May 10, 2006, payable to Citibank (West), F.S.B. in the original amount of \$6,594,000 related to Phoenix Park I. The note bears interest at 6.56% per annum and requires monthly payments of principal and interest in the amount of \$41,939. The note is secured by a first deed of trust encumbering the rental property and matures on June 1, 2021, at which time \$4,811,942 is due. During the years ended December 31, 2016 and 2015, interest expense of \$372,089 and \$376,289, respectively, was incurred, of which \$30,294 and \$31,733 remain payable as of December 31, 2016 and 2015, respectively.	\$ 5,529,962	\$ 5,665,598
Variable Rate Demand Bonds in the original amount of \$23,470,000 dated October 1, 2004, maturing on October 1, 2036, subject to the prior redemption of the bonds on demand by the bondholders, and are fully secured by a letter of credit in the amount of \$23,740,066 which expires October 1, 2017. The bonds were issued for the rehabilitation and construction of the Phoenix Park II Property. The interest rate is determined on a weekly basis as described in the agreement. As of December 31, 2016, the interest rate percentage was 0.75%. Interest incurred during 2016 and 2015 totaled \$279,993 and \$303,004, respectively. As of December 31, 2016 and 2015, interest payable was \$28,000.	6,081,001	6,578,000
Total First Mortgages and Bonds	11,610,963	12,243,598
<u>Other Mortgages</u>		
Permanent "Section 8" note dated May 8, 2006, payable to Citibank (West), F.S.B. in the original amount of \$2,521,000 related to Phoenix Park I. The note bears interest at 5.60% per annum and requires monthly payments of principal and interest in the amount of \$27,485. The note is secured by a subordinated deed of trust encumbering the rental property and matured on June 1, 2016, at which time \$54,587 was paid. As of December 31, 2016 and 2015, interest expense of \$1,924 and \$16,433, respectively, was incurred, of which no amounts were payable as of December 31, 2016 and 2015.		162,962
Note payable to Bank of the West (the Bank), dated February 1, 2004, in the original amount of \$1,000,000 related to Phoenix Park I. The note is non-interest bearing and is forgivable at the sole discretion of the Bank 57 years after February 1, 2004, provided that the Corporation complies with all of its obligations under the Affordable Housing Program (AHP) Agreement. There are no scheduled payments of interest and principal. The note is secured by a subordinated deed of trust.	1,000,000	1,000,000

NORWOOD AVENUE HOUSING CORPORATION AND AFFILIATED ENTITIES,
A COMPONENT UNIT OF THE SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE H - MORTGAGES AND BONDS PAYABLE (Continued)

	2016	2015
<p>Note payable to the Agency, dated February 19, 2004, in the amount of \$4,062,867 related to Phoenix Park I. The note bears interest of 3.0% on the first \$1,644,117 and 4.94% on the remaining balance, and is secured by a subordinated deed of trust. Principal payments are deferred until 2059. Interest payments are to be made monthly, until paid in full, only to the extent that residual receipts income is available, as defined in the loan agreement. During the years ended December 31, 2016 and 2015, interest expense of \$168,810 each year was incurred, and \$2,199,280 and \$2,030,470 remains payable as of December 31, 2016 and 2015, respectively.</p>	\$ 4,062,867	\$ 4,062,867
<p>Note payable to the Multifamily Housing Program (MHP) State of California Department of Housing and Community Development (the Department) in the amount of \$9,100,000 dated December 20, 2006 related to Phoenix Park II. The note bears simple interest of 3.0% per annum and is secured by a deed of trust. Payment of the entire unpaid principal amount, together with all accrued but unpaid interest, is due on December 20, 2061. Interest payments in the amount of 0.42% per annum on the unpaid principal balance of the loan are to be paid annually beginning December 31, 2006 and continuing annually thereafter, up to and including December 31, 2035. Commencing December 31, 2036 and continuing annually thereafter, annual loan payments in an amount equal to the lesser of (1) the full amount of interest accruing on the unpaid principal amount advanced under the Loan Documents for the immediately preceding twelve (12) month period, or (2) the amount determined by the Projects to be necessary to cover the costs of continued monitoring of the Projects for compliance with the requirements of the Program. Additional payments are to be made only to the extent that net cash flow is available, as is defined in the regulatory agreement. Interest expense charged to operations during 2016 and 2015 was \$273,000. During 2016 and 2015, the Corporation made payments applied to accrued interest in the amount of \$38,220. As of December 31, 2016 and 2015, interest payable was \$2,335,610 and \$2,100,830, respectively.</p>	9,100,000	9,100,000
<p>Note payable to the Agency (predevelopment loan A) in the amount of \$2,091,630 dated October 1, 2004 related to Phoenix Park II. The note bears interest at 3.0% per annum and is secured by a deed of trust and assignment of rents. The loan matures on October 1, 2059. Interest payments are to be made monthly only to the extent that residual receipts are available, as defined. Interest expense charged to operations during 2016 and 2015 was \$36,399. No amounts were paid in 2016 and 2015. As of December 31, 2016 and 2015, interest payable was \$1,136,051 and \$1,084,487, respectively.</p>	1,213,307	1,213,307

NORWOOD AVENUE HOUSING CORPORATION AND AFFILIATED ENTITIES,
A COMPONENT UNIT OF THE SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE H - MORTGAGES AND BONDS PAYABLE (Continued)

	<u>2016</u>	<u>2015</u>
Note payable to the Agency (predevelopment loan B) in the amount of \$4,585,133 dated October 1, 2004 related to Phoenix Park II. The note bears interest at 3.0% per annum and is secured by a deed of trust. The note matures on the first day of the Six Hundred and Sixty-first (661st) calendar month following the date of the origination of the permanent loan, but not later than the first day of the Six Hundred and Eighty-fifth (685th) calendar month following the date of the origination of the construction loan. Interest payments begin the first day of the first calendar month following the construction loan origination. All monthly payments are to be made only to the extent that residual receipts are available, as defined in the loan agreement. Interest expense charged to operations during 2016 and 2015 was \$137,554. No amounts were paid in 2016 and 2015. As of December 31, 2016 and 2015, interest payable was \$1,728,281 and \$1,590,727, respectively.	\$ 4,585,133	\$ 4,585,133
Non-interest bearing note payable to the Housing Authority of the City of Sacramento in the amount of \$1,429,886. Payments shall be made annually in an amount equal to the annual aggregate Phoenix Park I, L.P. ground lease payments, if any, that are received by the borrower payable on or before March 1 of each year after the payment start date. The unpaid balance of the note is due and payable in 2059, including, without limitation, all unpaid principal, fees and charges. The note is secured by a deed of trust.	1,305,127	1,429,886
Non-interest bearing note payable to the Housing Authority of the City of Sacramento in the amount of \$1,122,114. Payments shall be made on or before the 60th day following the Corporation's receipt of each of the Phoenix Park II, L.P. ground lease payments in an amount equal to the Phoenix Park II, L.P. ground lease payments that are received by the borrower from and after the payment start date. The unpaid balance of the note is due and payable in 2059, including, without limitation, all unpaid principal, fees and charges. The note is secured by a deed of trust.	<u>1,054,787</u>	<u>1,054,787</u>
Total Other Mortgages	22,321,221	22,608,942
Less: Unamortized mortgage fees	<u>(201,851)</u>	<u>(212,808)</u>
Total	<u>\$ 33,730,333</u>	<u>\$ 34,639,732</u>

Mortgage costs are amortized over the term of the loan using the straight-line method. GAAP requires that the effective yield method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method. As of December 31, 2016 and 2015, accumulated amortization of mortgage costs was \$126,854 and \$115,897, respectively.

NORWOOD AVENUE HOUSING CORPORATION AND AFFILIATED ENTITIES,
A COMPONENT UNIT OF THE SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE H - MORTGAGES AND BONDS PAYABLE (Continued)

Future principal payments on the above notes payable for each of the next five years and thereafter following December 31, 2016 are as follows:

2017	\$ 254,775
2018	359,564
2019	385,013
2020	376,170
2021	398,080
Thereafter	<u>32,413,357</u>
Total	34,186,959
Less current maturities	(254,775)
Less unamortized mortgage fees	<u>(201,851)</u>
Net long-term portion	<u>\$ 33,730,333</u>

Financial Instruments

A consolidated limited partnership entered into an interest rate swap agreement (Agreement) effective October 1, 2006, with Citibank N.A. New York (Provider). Under the terms of the Agreement, the Partnership has agreed to pay interest to the Provider at a fixed rate of 4.48% on a notional amount of \$10,210,000, which shall reduce each month by the amount of the monthly principal payments on the bonds until expiration on October 21, 2021. Valued separately, the Agreement represents a liability as of December 31, 2016 and 2015, in the amount of \$773,540 and \$1,064,331, respectively. The value represents the fair value of the current difference in interest to be paid and received under the Agreement over the remaining term of the Agreement. Because the swap is considered to be a cash flow hedge, the value of the agreement is recorded in the statement of changes in net assets - unrestricted as a separate component of other comprehensive income. In connection with the Agreement, during 2016 and 2015, interest of \$279,993 and \$303,004, respectively, was charged to expense in the consolidated statement of activities. As of December 31, 2016 and 2015, \$1,800 remains payable.

NOTE I - FAIR VALUE

The consolidated limited partnership measures the fair value of its interest rate swaps on a recurring basis. The following summarizes the three levels of inputs and hierarchy of fair value the Partnership uses when measuring fair value:

- Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Partnership has the ability to access;
- Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as interest rates and yield curves that are observable at commonly quoted intervals; and
- Level 3 inputs are unobservable inputs for the asset or liability that are typically based on an entity's own assumptions as there is little, if any, related market activity.

NORWOOD AVENUE HOUSING CORPORATION AND AFFILIATED ENTITIES,
A COMPONENT UNIT OF THE SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE I - FAIR VALUE (Continued)

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the fair value measurement will fall within the lowest level input that is significant to the fair value measurement in its entirety.

The fair value of the interest rate swap has been calculated utilizing a third-party methodology that management believes is commonly employed. As of December 31, 2016 and 2015, the unrealized losses on the interest rate swap of \$773,540 and \$1,064,331, respectively, were classified within Level 2 of the fair value hierarchy. No other assets or liabilities were measured at fair value as of December 31, 2016 and 2015.

The following table presents the financial liability that is measured at fair value on a recurring basis:

	Fair Value Measurements		
	Level 1	Level 2	Level 3
Interest rate swap liability at December 31, 2016		\$ 773,540	
Interest rate swap liability at December 31, 2015		1,064,331	

NOTE J - DISTRIBUTIONS

All increases and decreases in net assets are allocated in accordance with specific criteria as defined in the respective partnership agreements of the Corporation's consolidated affiliates.

Also, distributions are restricted to cash available for distribution as defined in the respective partnership agreements of the Corporation's consolidated affiliates.

NOTE K - CONCENTRATION OF CREDIT RISK

Financial instruments exposed to concentrations of credit risk at December 31, 2016 and 2015 included cash in banks of \$2,687,006 and \$2,503,335, respectively, which was not federally insured.

NOTE L - CONTINGENCY

The consolidated partnership's low-income housing tax credits are contingent on their ability to maintain compliance with applicable sections of Section 42. Failure to maintain compliance with occupant eligibility, and/or unit gross rent or to correct noncompliance within a specified time period could result in recapture of previously tax credits plus interest. In addition, such potential noncompliance may require an adjustment to capital contributions by the limited partners.

NORWOOD AVENUE HOUSING CORPORATION AND AFFILIATED ENTITIES,
A COMPONENT UNIT OF THE SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE M - CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The majority of the Corporation's assets are comprised of two low-income housing rental projects. The Corporation's operations are concentrated in the multi-family real estate market. In addition, the Corporation operates in a heavily regulated environment. The operations of the Corporation are subject to administrative directives, rules and regulations of government agencies, including but not limited to, the Agency. Such administrative directives, rules and regulations are subject to change with little or inadequate notice or inadequate funding to pay for the related cost, including administrative burden, to comply with a change.

NOTE N - CONDENSED FINANCIAL INFORMATION OF NORWOOD AVENUE HOUSING CORPORATION

Condensed statement of financial position as of December 31, 2016 and 2015, and the related condensed statement of activities for the year ended for Norwood Avenue Housing Corporation is presented as follows:

	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	\$ 551,986	\$ 633,169
Developer fee receivable	493,000	493,000
Total current assets	<u>1,044,986</u>	<u>1,126,169</u>
NONCURRENT ASSETS		
Ground lease receivable	1,376,506	1,370,113
Management fee receivable	31,554	19,157
Total noncurrent assets	<u>1,408,060</u>	<u>1,389,270</u>
RENTAL PROPERTY, NET OF DEPRECIATION	<u>2,669,264</u>	<u>2,691,039</u>
TOTAL ASSETS	<u><u>\$ 5,122,310</u></u>	<u><u>\$ 5,206,478</u></u>
LONG-TERM LIABILITIES		
Mortgage payable	\$ 2,359,914	\$ 2,484,673
Due to affiliates		21,969
Total long-term liabilities	<u>2,359,914</u>	<u>2,506,642</u>
NET ASSETS	<u>2,762,396</u>	<u>2,699,836</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 5,122,310</u></u>	<u><u>\$ 5,206,478</u></u>

NORWOOD AVENUE HOUSING CORPORATION AND AFFILIATED ENTITIES,
A COMPONENT UNIT OF THE SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2016 and 2015

NOTE N - CONDENSED FINANCIAL INFORMATION OF NORWOOD AVENUE HOUSING CORPORATION (Continued)

STATEMENT OF ACTIVITIES

	2016	2015
Revenues		
Interest income	\$ 201	\$ 202
Ground lease income	153,120	153,120
Partnership management income	31,554	19,157
Total revenue corporate	<u>184,875</u>	<u>172,479</u>
Expenses		
Administrative fee	85,000	85,000
Professional services	14,237	13,850
Other expense	1,303	1,093
Depreciation	21,775	21,774
Total corporate expenses	<u>122,315</u>	<u>121,717</u>
Total increase in net assets	<u>\$ 62,560</u>	<u>\$ 50,762</u>



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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

To the Board of Directors
Norwood Avenue Housing Corporation and Affiliated Entities,
A Component Unit of the Sacramento Housing and Redevelopment Agency

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 Norwood Housing Corporation and Affiliated Entities, a Component Unit of the Sacramento Housing and Redevelopment Agency, which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, comprehensive income, change in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 29, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Norwood Housing Corporation and Affiliated Entities' 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 Norwood Housing Corporation and Affiliated Entities' internal control. Accordingly, we do not express an opinion on the effectiveness of Norwood Housing Corporation and Affiliated Entities' 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.

To the Board of Directors
Norwood Avenue Housing Corporation and Affiliated Entities,
A Component Unit of the Sacramento Housing and Redevelopment Agency

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Norwood Housing Corporation and Affiliated Entities' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with these 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 result 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.

Richardson & Company, LLP

March 29, 2017

**SACRAMENTO HOUSING AUTHORITY
REPOSITIONING PROGRAM, INC.**

**(A COMPONENT UNIT OF THE SACRAMENTO
HOUSING AND REDEVELOPMENT AGENCY)**

Independent Auditor's Report and Basic Financial Statements

Year Ended December 31, 2016



**Certified
Public
Accountants**

**SACRAMENTO HOUSING AUTHORITY REPOSITIONING PROGRAM, INC.
(A COMPONENT UNIT OF THE SACRAMENTO HOUSING
AND REDEVELOPMENT AGENCY)**

Year Ended December 31, 2016

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Certified
Public
Accountants

Century City
Los Angeles
Newport Beach
Oakland
Sacramento
San Diego
San Francisco
Walnut Creek
Woodland Hills

Independent Auditor's Report

To the Board of Directors
of Sacramento Housing Authority Repositioning Program, Inc.

We have audited the accompanying financial statements of the Sacramento Housing Authority Repositioning Program, Inc. (Corporation), a California nonprofit public benefit corporation and a component unit of the Sacramento Housing and Redevelopment Agency (Agency), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, as listed in the table of contents.

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. 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 Corporation as of December 31, 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.

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.

Macias Gini & O'Connell LLP

Sacramento, California
April 20, 2017

Sacramento Housing Authority Repositioning Program, Inc.
(A Component Unit of the Sacramento Housing and Redevelopment Agency)
Statement of Net Position
December 31, 2016

Assets

Current Assets:

Cash and equivalents	\$ 4,159,162
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Noncurrent Assets:

Accounts receivable	154,851
Notes receivable	241,417
Other assets	253,642
Total noncurrent assets	<u>649,910</u>

Total assets	<u>4,809,072</u>
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Liabilities and Net Position

Current Liabilities:

Accounts payable	69,631
Accrued liabilities	3,348
Unearned revenue	305
Total current liabilities	<u>73,284</u>

Net Position

Unrestricted	
Total net position	<u>\$ 4,735,788</u>

The notes to the basic financial statements are an integral part of this statement.

Sacramento Housing Authority Repositioning Program, Inc.
(A Component Unit of the Sacramento Housing and Redevelopment Agency)
Statement of Revenues, Expenses and Change in Net Position
Year Ended December 31, 2016

Operating Revenues	
Developer fees	\$ 615,000
Management fees	62,417
Total Operating Revenues	<u>677,417</u>
Operating Expenses	
Administrative services	75,000
Services and supplies	171,440
Total Operating Expenses	<u>246,440</u>
Operating Income	430,977
Nonoperating Revenues	
Interest income	<u>48,021</u>
Change in net position	478,998
Net position, beginning of year	<u>4,256,790</u>
Net position, end of year	<u>\$ 4,735,788</u>

The notes to the basic financial statements are an integral part of this statement.

Sacramento Housing Authority Repositioning Program, Inc.
(A Component Unit of the Sacramento Housing and Redevelopment Agency)
Statement of Cash Flows
Year Ended December 31, 2016

Cash flows from operating activities:	
Cash receipts from tenants	\$ 572
Cash receipts from development fees	585,366
Cash receipts from management fees	40,600
Cash paid for administrative expenses	(7,569)
Cash paid to suppliers for goods and services	<u>(171,440)</u>
Net cash provided by operating activities	<u>447,529</u>
Cash flows from investing activities:	
Distribution of loan principal	(241,417)
Interest received	<u>48,021</u>
Net cash used in investing activities	<u>(193,396)</u>
Net increase in cash and cash equivalents	254,133
Cash and cash equivalents, beginning of year	<u>3,905,029</u>
Cash and cash equivalents, end of year	<u><u>\$ 4,159,162</u></u>
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 430,977
Adjustments to reconcile operating income to net cash provided by operating activities	
Increase in accounts receivable	(50,879)
Decrease in accounts payable	<u>67,431</u>
Net cash provided by operating activities	<u><u>\$ 447,529</u></u>

The notes to the basic financial statements are an integral part of this statement.

**SACRAMENTO HOUSING AUTHORITY REPOSITIONING PROGRAM, INC.
(A COMPONENT UNIT OF THE SACRAMENTO HOUSING
AND REDEVELOPMENT AGENCY)**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016**

NOTE A – ORGANIZATION AND NATURE OF OPERATIONS

The Sacramento Housing Authority Repositioning Program, Inc. (the “Corporation”), a component unit of the Sacramento Housing and Redevelopment Agency (the “Agency”), is a nonprofit public benefit corporation organized for charitable purposes. The Corporation was formed on June 2, 2009 to benefit and support the City of Sacramento and the Housing Authority of the City of Sacramento (“HACS”) and its purposes by (1) acquiring, providing, developing, financing, rehabilitating, owning and operating decent, safe and sanitary housing affordable to persons and households of low income and by (2) assisting HACS in combating blight and promoting social welfare through community based development activities.

The Corporation serves as the general partner of entities that will own, rehabilitate and operate former public housing properties acquired through the Department of Housing and Urban Development’s (“HUD”) assets demolition and disposition process. The purpose of the Corporation is to allow the HACS and the Housing Authority of the County of Sacramento (“HACOS”) to leverage private sector capital to make improvements to housing inventory removed from the federal Public Housing program through HUD’s asset disposition process. Assets transferred to the Corporation will be rehabilitated through various financing structures including the use of limited partnerships that will be able to benefit from the use of tax credit financing.

The Corporation is the non-managing member in 2 separate Limited Liability Companies (“LLC”) and holds a 49% ownership interest, with BRIDGE Housing Corporation (“BRIDGE”) being the managing member and holding 51% interest. Each of the LLC’s serves as the General Managing Partner in each of the following Limited Partnerships (“LP”) and hold a general partnership interest as follows:

- The Sierra Vista Housing Associates, LLC (“Sierra Vista LLC”) owns a 0.01% interest in Sierra Vista Housing Associates, L.P. (“Sierra Vista LP”), a low income housing apartment project located in Sacramento, California with 78 units.
- The Sutterview Housing Associates, LLC (“Sutterview LLC”) owns a 0.01% interest in Sutterview Housing Associates, L.P. (“Sutterview LP”), a low income housing apartment project located in Sacramento, California with 77 units.

Similar to the organizational structure and ownership interest identified in the above paragraph, the Corporation was also a non-managing member of Washington Plaza Housing Associates LLC (“WPHA LLC”). In accordance with amended WPHA LLC Operating Agreement, effective November 30, 2016, BRIDGE withdrew from the LLC, leaving the Corporation as the sole managing member of WPHA LLC, which owns a 0.01% interest in Washington Plaza Housing Associates, L.P. (“WPHA LP”), a low income housing apartment project located in Sacramento, California with 76 units.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*, with the Corporation remaining as the sole managing member of WPHA LLC, the Corporation considers WPHA LLC a blended component unit, and therefore it is reported in the Corporation’s financial statements.

The Corporation is governed by a five-member board of directors who are appointed by the Executive Director of the Agency. The board of directors approve the Corporation’s annual budget and amendments to the Articles of Incorporation and Bylaws. Pursuant to the Corporation’s Bylaws, the Agency

**SACRAMENTO HOUSING AUTHORITY REPOSITIONING PROGRAM, INC.
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**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2016**

Executive Director can remove members of the board of directors with or without cause. Upon future dissolution of the Corporation, and after paying or adequately providing for the debts and obligations of the Corporation, the remaining assets will be distributed to HACS for charitable purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code. Although the Corporation is legally separate from the Agency, governmental accounting standards require the Corporation to be reported as a component unit of the Agency for financial reporting purposes.

Since the Agency (1) appoints the entire voting members of the Corporation's board of directors; (2) can impose its will on the Corporation by significantly influencing its programs, activities, and levels of service provided by the Corporation; (3) does not have substantively the same governing body; and (4) the Corporation does not entirely or exclusively provide services to the Agency, nor entirely benefitting the Agency, the Corporation is considered a discrete component unit of the Agency.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The basic accounting and reporting entity is a "fund". A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts, recording resources, related liabilities, obligations, equity amounts and segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Basis of Presentation

The basic financial statements of the Corporation have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles.

Enterprise funds are accounted for on an economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows occur. Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the Corporation are developer and management fees. Operating expenses for the Corporation include employee and administrative services, services and supplies, and utilities. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash and Cash Equivalents

The Corporation's cash includes amounts in demand deposit accounts.

For purposes of the statement of cash flows, cash and cash equivalents are defined as short-term highly liquid investments that are both readily convertible to known amounts of cash or so near to their maturity that they present insignificant risk of changes in value because of changes in interest rates and have an original maturity date of three months or less from the date of purchase. As of December 31, 2016, the Corporation did not have any investments.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2016**

Accounts Receivable

Balances in accounts receivable include \$102,417 in management fees payable to the Corporation from WPHA LP, Sierra Vista LP, and Sutterview LP for which the Corporation and BRIDGE serve as the managing general partner of the LLCs. Also, the Corporation recognizes \$52,434 in accrued developer fees from WPHA LP and Sierra Vista LP.

Notes Receivable

On July 13, 2016, the Corporation (lender) entered into a promissory note agreement with McCormack Baron Salazar, Inc. (borrower) in the amount of \$1,500,000. The borrower will use the funds only for predevelopment expenses connected with the development of Twin Rivers Phase 1 (Project). The note bears interest at 4.0% per annum and is due and payable at the earlier of (i) the date the construction financing closes for the Project, or (ii) September 30, 2018, unless the term is extended in writing by the Lender prior to the termination date. At December 31, 2016, the outstanding notes receivable balance was \$241,417.

Other Assets

The Corporation's contributions to the LLCs and the LP's are reported in the statement of net position as other assets. As of December 31, 2016, the Corporation has made contributions to WPHA LLC, WPHA LP, Sutterview LLC and Sutterview LP.

Net Position

The Corporation utilizes a net position presentation. Net position can be categorized as net investment in capital assets, restricted, and unrestricted. As of December 31, 2016, the Corporation only reported unrestricted net position. Unrestricted net position represents amounts that are not restricted as to their use.

Operating Revenues

Operating revenues of the Corporation consist of management fees and developer fees earned as the managing general partner of the WPHA LP, Sierra Vista LP, and Sutterview LP.

Administrative Expenses

Administrative expenses include audit, legal, insurance and other expenses incurred by the Corporation in support of the Agency in its mission to improve the living conditions of low- and moderate-income people through the acquisition, development, rehabilitation, and management of affordable housing.

Income Taxes

The Corporation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state income taxes under Section 23701(d) of the California Revenue and Taxation Code. As such, no provision is made for federal and state income taxes.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2016**

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

New Pronouncements

For the year ended December 31, 2016, the Corporation adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application* which addresses the accounting and financial reporting issues related to fair value measurements and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Implementation of GASB Statement No. 72 allows consistency for valuing investments among all governmental agencies and requires disclosures to be made about fair value measurement, the level of fair value hierarchy and valuation techniques. There was no impact on the Corporation's financial statements from the implementation of GASB Statement No. 72.

NOTE C – CASH AND INVESTMENTS

At December 31, 2016, the Corporation's cash and cash equivalents was \$4,159,162 in a demand deposit account.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the Corporation's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of December 31, 2016, the Corporation was not exposed to custodial credit risk.

Refer to the Agency's basic financial statements which contain all applicable investment risk disclosures, including credit risk, custodial credit risk, interest rate risk, fair value measurement, level of fair value hierarchy and valuation techniques. The report can be obtained from the Agency's Finance Department.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2016**

NOTE D – RELATED PARTY TRANSACTIONS

Partnership Management Fee

Partnership management fees from WPHA LP, Sierra Vista LP, and Sutterview LP, for which each of the LLC's serves as general partner, are payable to the general partner in an annual amount equal to \$20,000, increasing by 3% per annum as defined in the respective Partnership Agreements. As of December 31, 2016, partnership management fees payable from WPHA LP, Sierra Vista LP, and Sutterview LP to the Corporation totaled \$21,217, \$40,600 and \$40,600, respectively.

The annual partnership management fees from each limited partnership is cumulative and is earned, but payable, only to the extent that cash flow is available for distribution in any year as defined in the respective Partnership Agreements.

Administrative Services Agreement

The Corporation has entered into an agreement with the HACS to provide administrative services related to asset management, operations and filing of required documents on behalf of the Corporation. The maximum annual asset management fee pursuant to the Administrative Services Agreement is \$75,000.

Transition Reserve Fund Contribution

On December 1, 2013, the Corporation entered into a funding agreement with WPHA LP to fund the shortfall, if any, of the required Transition Reserve Fund in the amount of \$360,000 per the Limited Partnership agreement. The Transition Reserve Fund would be funded upon the "Stabilization Date" of the property. In consideration for the Corporation's agreement to fund the shortfall, the Limited Partnership agrees that it will direct the Trustee to disburse the funds, if any, from the Transition Reserve Fund after the 5th anniversary of the "Stabilization Date" to the Corporation until such time the Corporation has been reimbursed in full for the amount funded. As of December 31, 2016, the total amount funded by the Corporation was \$253,642.

NOTE E – FINANCIAL COVENANTS

Washington Plaza Housing Associates, L.P.

On or after the date of the Limited Partner's final capital contribution to the WPHA LP, provided that if (a) there is no default by the General Partner or under the "Guaranty", (b) the Corporation provides evidence acceptable to the Limited Partner in its sole discretion that the Corporation has a minimum liquidity of \$850,000, and (c) the General Partner provides evidence that the Corporation and the Agency are parties to an approved Administrative Services Agreement; then (i) Winfield Hill, Inc. may withdraw as a member of the General Partner or assign all of its membership interest in the General Partner to the Corporation such that the Corporation is the sole member of the General Partner, and (ii) the Corporation may replace BRIDGE Housing Corporation as guarantor provided that the Corporation executes the Guaranty and that such "Guaranty" includes the following provisions: (iii) the Corporation shall maintain a minimum liquidity of \$850,000 until the "Deficit Release" (after five years of achieving a debt service coverage ratio of 1.15 measured as of the end of each Fiscal Year after Bond Loan Conversion has been achieved), and a minimum liquidity of \$500,000 from and after the "Deficit Release".

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**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2016**

Suterview Housing Associates, L.P.

The Corporation shall maintain Net Worth and Liquidity (both as hereinafter defined) of not less than (a) \$850,000 during the period between (i) the later of the Stabilization Date or Loan Conversion and (ii) the date on which the obligation of the General Partner to make Operating Deficit Contributions under Section 5.14 of the Limited Partnership Agreement terminates, and (b) \$500,000 during the period between the date on which the obligation of the General Partner to make Operating Deficit Contributions under Section 5.14 of the Limited Partnership Agreement terminates and the expiration of the Compliance Period. As used in the Limited Partnership Agreement, the term "Net Worth" means the Corporation's total assets minus the Corporation's total liabilities, determined in accordance with generally accepted accounting principles, consistently applied. As used in the Limited Partnership Agreement, the term "Liquidity" refers to cash, cash equivalents and/or marketable securities which are unencumbered and freely transferable.

Sierra Vista Housing Associates, L.P.

On or after the date of the Limited Partner's final capital contribution to the Sierra Vista LP, provided that if (a) there is no default by the General Partner or under the Guaranty, (b) the Corporation provides evidence acceptable to the Limited Partner in its sole discretion that the Corporation has a minimum liquidity of \$1,100,000, and (c) the General Partner provides evidence that the Corporation and the Agency are parties to an approved Administrative Services Agreement, then (i) Winfield Hill, Inc. may withdraw as a member of the General Partner or assign all of its membership interest in the General Partner to the Corporation such that the Corporation is the sole member of the General Partner, and (ii) the Corporation may replace BRIDGE Housing Corporation as guarantor provided that the Corporation executes the Guaranty and that such Guaranty shall include the following provision: (iii) the Corporation shall maintain a minimum liquidity of \$1,100,000.

**SHASTA HOTEL INVESTORS PARTNERSHIP
A CALIFORNIA LIMITED PARTNERSHIP**

**FINANCIAL STATEMENTS
WITH AUDITOR'S REPORT**

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

**THOMAS TOMASZEWSKI
CERTIFIED PUBLIC ACCOUNTANT**

**Shasta Hotel Investors Partnership
A California Limited Partnership
Financial Statements
For the Years Ended December 31, 2016 and 2015**

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Thomas Tomaszewski
Certified Public Accountant

3811 Tilden Drive • El Dorado Hills, CA 95762 •

INDEPENDENT AUDITOR'S REPORT

To the Partners of
Shasta Hotel Investors Partnership
a California Limited Partnership
Sacramento, California

I have audited the accompanying balance sheets of Shasta Hotel Investors Partnership, a California Limited Partnership as of December 31, 2016 and 2015, and the related statements of income and expenses, changes in partnership deficit 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 judgement, 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shasta Hotel Investors Partnership, a California Limited Partnership, as of December 31, 2016 and 2015, and the results of its operations, changes in partnership deficit, 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

My audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental information shown on page 11 is presented for purposes of additional analysis, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other audit 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 the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Thomas Tomaszewski, Certified Public Accountant

El Dorado Hills, California
February 6, 2017

Shasta Hotel Investors Partnership
A California Limited Partnership
Balance Sheets
December 31, 2016 and 2015

<u>Investment in Real Estate Held for Lease</u>	<u>2016</u>	<u>2015</u>
Buildings and Improvements	\$ 4,490,277	\$ 4,490,277
Furniture and Equipment	9,167	9,167
Less: Accumulated Depreciation	(3,596,275)	(3,431,009)
Net Investment in Real Estate	<u>903,169</u>	<u>1,068,435</u>
<u>Other Assets</u>		
Cash - Operating Checking (Note 2)	196,965	109,396
Tenant Security Deposits	17,924	17,997
Resident Recreation reserve	2,055	2,051
Accounts Receivable - tenants & subsidy	7,043	6,802
Reserve for Replacements (Note 7)	0	0
Operating Reserves (Note 7)	0	0
Repair Reserve	33	33
Prepays	16,777	15,320
Deposits	<u>0</u>	<u>727</u>
Total Other Assets	<u>240,797</u>	<u>152,326</u>
Total Assets	\$ <u>1,143,966</u>	\$ <u>1,220,761</u>
<u>Liabilities and Partners' Deficit</u>		
<u>Liabilities Applicable to Investment in Real Estate</u>		
Long-Term Debt (Note 4)	\$ 2,000,000	\$ 2,000,000
Interest Payable	1,383,684	1,323,684
Accounts Payable	46,843	56,115
Prepaid Rents	6,358	3,973
Partnership Management Fee Payable	91,218	74,870
Security Deposits	<u>17,919</u>	<u>17,992</u>
Total Liabilities Applicable to Investment in Real Estate	<u>3,546,022</u>	<u>3,476,634</u>
Partners' Deficit	<u>(2,402,056)</u>	<u>(2,255,873)</u>
Total Liabilities and Partners' Deficit	\$ <u>1,143,966</u>	\$ <u>1,220,761</u>

See Notes to Financial Statements

Shasta Hotel Investors Partnership
A California Limited Partnership
Statements of Operations
Years Ended December 31, 2016 and 2015

<u>Income</u>	<u>2016</u>	<u>2015</u>
Gross Potential Tenant Rent	\$ 479,329	\$ 466,517
Less: Vacancy Loss	(12,284)	(21,428)
Net Residential Rental	467,045	445,089
Total Rent	467,045	445,089
Miscellaneous Tenant Charges	7,969	9,624
Operating Subsidies	150,000	50,000
Laundry & Vending Income	3,913	3,449
Other Income	3,668	0
Interest Income	9	9
Total Income	632,604	508,171
<u>Operating Expenses</u>		
Administrative	234,232	242,128
Utilities	77,592	72,346
Operating and Maintenance	124,613	137,409
Marketing and Leasing	2,653	3,184
Taxes and Insurance	98,083	82,285
Total Operating Expenses	537,173	537,352
Net Operating Income/(Loss) Before Partnership and Financial Expenses	95,431	(29,181)
<u>Partnership and Financial Expenses</u>		
Partnership Management Fee	16,348	15,872
Interest	60,000	60,000
Total Partnership and Financial Expenses	76,348	75,872
Net Income/(Loss) Before Depreciation and Amortization	19,083	(105,053)
Depreciation	165,266	165,268
Amortization	0	0
Net Loss	\$ (146,183)	\$ (270,321)

See Notes to Financial Statements

**Shasta Hotel Investors Partnership
A California Limited Partnership
Statements of Partners' Deficit
Years Ended December 31, 2016 and 2015**

	<u>General Partner</u>	<u>Limited Partner</u>	<u>Total</u>
Partners' Deficit, January 1, 2016	\$ (46,560)	\$ (2,209,313)	\$ (2,255,873)
Capital Contributions	0	0	0
Net Loss - See note below	<u>(1,462)</u>	<u>(144,721)</u>	<u>(146,183)</u>
Partners' Deficit, December 31, 2016	\$ <u>(48,022)</u>	\$ <u>(2,354,034)</u>	\$ <u>(2,402,056)</u>

	<u>General Partner</u>	<u>Limited Partner</u>	<u>Total</u>
Partners' Deficit, January 1, 2015	\$ (43,857)	\$ (1,941,695)	\$ (1,985,552)
Capital Contributions	0	0	0
Net Loss - See note below	<u>(2,703)</u>	<u>(267,618)</u>	<u>(270,321)</u>
Partners' Deficit, December 31, 2015	\$ <u>(46,560)</u>	\$ <u>(2,209,313)</u>	\$ <u>(2,255,873)</u>

Note: The profit and loss are distributed on the following basis:

General Partner: 1%

Limited Partner: 99%

See Notes to Financial Statements

**Shasta Hotel Investors Partnership
A California Limited Partnership
Statements of Cash Flows
Years Ended December 31, 2016 and 2015**

<u>Cash Flows from Operating Activities</u>	<u>2016</u>	<u>2015</u>
Net Loss	\$ (146,183)	\$ (270,321)
Adjustments to Reconcile Net Income/(Loss) to Net Cash Provided By/ (Used) In Operating Activities:		
Depreciation	165,266	165,268
(Increase) Decrease in Operating Assets		
Accounts Receivable Tenants & Subsidy	(241)	1,583
Resident Recreation Cash	(4)	(5)
Security Deposits Reserve	73	(1,784)
Prepays & Deposits	(730)	2,224
Increase (Decrease) in Operating Liabilities		
Accounts Payable	(9,272)	21,104
Accrued Interest	60,000	60,000
Prepaid Rents	2,385	2,707
Partnership Management Fee Payable	16,348	15,873
Security Deposits	(73)	1,794
Total Adjustments	<u>233,752</u>	<u>268,764</u>
Net Cash (Used)/ Provided by Operating Activities	<u>87,569</u>	<u>(1,557)</u>
<u>Cash Flows from Investing Activities</u>		
Withdrawals from Operating Reserves & Repairs Reserve	<u>0</u>	<u>0</u>
Net Cash Flow Provided By Investing Activities	<u>0</u>	<u>0</u>
Net Increase/(Decrease) in Cash	87,569	(1,557)
Cash at the beginning of the year	<u>109,396</u>	<u>110,953</u>
Cash at the end of the year	\$ <u><u>196,965</u></u>	\$ <u><u>109,396</u></u>
Supplemental Data: Cash Interest Paid	\$ <u><u>0</u></u>	\$ <u><u>0</u></u>

See Notes to Financial Statements

**Shasta Hotel Investors Partnership
A California Limited Partnership
Notes to the Financial Statements
December 31, 2016 and 2015**

Note 1: Organization

The Partnership was formed as a limited partnership under the laws of the State of California on March 22, 1994 for the purpose of constructing and operating a 80-unit affordable rental housing project, located in Sacramento, California, and is currently operating under the name of Shasta Hotel Investors Partnership. The general partner of the partnership is Shasta Hotel Corporation, a nonprofit corporation and the limited partner was California Equity Fund 1992 Limited Partnership (a California Limited Partnership). On November 1, 2009 the Partnership Agreement was amended to allow California Equity Fund 1992 Limited Partnership to withdraw as sole Limited Partner and Norwood Avenue Housing Corporation, a California nonprofit public benefit corporation was admitted as the sole Limited Partner with a 99% interest. The board of directors of Shasta Hotel Corporation is comprised of two Sacramento Housing and Redevelopment Agency (SHRA) staff and three others. Through contractual arrangements, Shasta Hotel Corporation is responsible for all fiscal matters, including contracting the management agent.

Note 2: Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Partnership are prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America.

Capitalization and Depreciation

Land, building and improvements are recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. The estimated service lives of the assets for depreciation purposes may be different than actual economic useful lives.

Shasta Hotel Investors Partnership depreciates the following assets as follows:

Building	27.5 years straight-line
Personal Property	7 years straight-line

Tenant Receivables

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.

Impairment

The partnership reviews its investment in rental property for impairment whenever events or changes in circumstances indicate that carrying value of such property may not be recoverable. For assets held and used, if management's estimate of aggregate future cash flows to be generated by the property, undiscounted and without interest charges including the low income housing tax credits and estimated proceeds from the eventual disposition of the real estate are less than their carrying amounts, an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. The determination of undiscounted cash flows requires significant estimates by management. Subsequent changes in estimated undiscounted cash flows could impact the determination of whether impairment exists. No impairment loss has been recognized during the years ended December 31, 2016 or 2015.

Rental Income

Rental income is recognized as rent becomes due. Rental payments received in advance are deferred until earned. All leases between the Partnership and tenants of the property are operating leases.

Amortization

California Tax Credit Allocation Committee fees were amortized straight-line over 10 years

Income Taxes

The Partnership is not a taxpaying entity, thus no provision or benefit for income taxes has been included in these financial statements. All taxable income or loss passes through to, and is reportable by, the managing partner and investor partners on their respective tax returns. Beginning in 1988 the State of California extended the minimum corporation franchise tax (\$800) to include limited partnerships.

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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Partnership considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Partnership maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Partnership has not experienced any losses in such accounts. The Partnership believes it is not exposed to any significant credit risk on cash and cash equivalents.

Note 3: Partner's Capital Contributions

The Partnership has one General Partner, Shasta Hotel Corporation which has a 1% interest and one Limited Partner, Norwood Avenue Housing Corporation, a California nonprofit public benefit corporation which has a 99% interest.

Note 4: Long Term Debt

2016

2015

The first note is held by the California Department of Housing & Community Development (HCD) 90-CHRP-R-065 in the original amount of \$2,000,000 on April 6, 1993. The note bears interest at 3% per annum due on March 25, 2043. Interest only, is due to the extent of available net cash flow, as defined in the loan agreement, collateralized by the value of the real estate. Interest of \$1,383,684 and \$1,323,684 was payable at December 31, 2016 and 2015, respectively.

\$2,000,000

\$2,000,000

TOTAL

\$2,000,000

\$2,000,000

Aggregate maturities of principal on long-term debt for the next five years are zero for each year 2017-2021, thereafter \$ 2,000,000. The notes are secured by deeds of trust.

Note 5: Transactions with Affiliates and Related Parties

The General Partner is entitled to an annual partnership management fee of \$16,348 and \$15,872 for 2016 and 2015, respectively according to the Partnership Agreement.

The Partnership Agreement provides for various obligations of the General Partners, including their obligation to provide funds for any development and operating deficits.

Amounts due to General Partner at December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Partnership Management Fee	\$91,218	\$ 74,870

Note 6: Partnership Profits and Losses and Distributions

All profits and losses are allocated 1% to the General Partner and 99% to the Limited Partner.

Distributable cash flow, as defined by the Partnership Agreement, is distributable 1% to the General Partner and 99% to the Limited Partner.

Gain, if any, from a sale or exchange or other disposition of the property owned by the Partnership is allocable as follows:

1. To all partners having negative balances in their capital accounts prior to the distribution of any sale or refinancing proceeds, an amount of such gain to increase their negative balance to zero.
2. 1% to the General Partner and 99% to the Limited Partner until the Limited Partner has received an amount equal to its gross capital contribution.
3. The remainder of such gain, if any, 50% to the Limited Partner and 50% to the General Partner.

Note 7: Restricted Deposits and Reserves

According to the partnership, loan and other regulatory agreements, the Partnership is required to maintain the following deposits and reserves. The following shows the activity in such accounts during 2016 and 2015.

The reserves have not been funded in accordance with requirements at December 31, 2016 and 2015.

	Beginning Balance <u>1/1/16</u>	Additions & Interest	Withdrawals & Transfers	Ending Balance <u>12/31/16</u>
Replacement Reserve	\$ 0	0	0	0
Repair Reserve	33	0	0	33
Operating Reserve	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$ 33</u>	<u>\$ 0</u>	<u>\$ 5</u>	<u>\$ 33</u>

	Beginning Balance <u>1/1/15</u>	Additions & Interest	Withdrawals & Transfers	Ending Balance <u>12/31/15</u>
Replacement Reserve	\$ 0	0	0	0
Repair Reserve	33	0	0	33
Operating Reserve	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$ 33</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 33</u>

Note 8: Ground Lease Reclassified as Contingent Liability

The partnership entered into a 55-year ground lease for the project site with the SHRA commencing March 22, 1994. The terms of the lease call for rent payments of \$6,000 annually, provided there is sufficient cash available to make the lease payment. Unpaid rent shall accrue at 3% simple interest. Due to the financial position of the Partnership, accumulated ground lease payable of \$92,655 was reclassified as other revenue as of December 31, 2009, and removed from the financial statements, as a liability. Ground lease accrued thru 2016, totaling \$140,655 is considered a contingent liability and its payment is considered remote, therefore until such time as reserves are completely funded, the Partnership is not projecting any surplus operating cash for some time. If surplus cash is generated to allow payment of ground lease, the expense will be recognized at the time of payment.

Note 9: Accounts Receivable

At December 31, 2016 and 2015 accounts receivable consist of the following:

	<u>2016</u>	<u>2015</u>
Tenant & Subsidy rents receivable	\$ 7,043	\$ 6,802

Note 10: Commitments

In connection with financing received from the California Department of Housing and Community Development (HCD) through the CHRP-R program, the partnership has entered into a deed restriction agreement. 80 units are deemed to be assisted units and must be occupied by tenants whose annual incomes do not exceed at the time of occupancy, 60% of the median family income as established by HUD. In addition the term of affordability is 55 years. The restriction contains use, sale or transfer and other terms.

Note 11: Operating Losses

The partnership has exhausted its reserves. Management should continue to address its operating cash shortage to allow the project to continue to operate in the future. Substantial subsidies from SHRA will be needed in 2017 to allow the project to operate.

Subsequent Events

Subsequent events have been evaluated through February 6, 2017, which is the date the financial statements were available to be issued and there are no subsequent events requiring disclosure.

Risks and Uncertainties

The Partnership is subject to various risks and uncertainties in the ordinary course of business that could have adverse impacts on its operating results and financial condition. Future operations could be affected by changes in the economy or other conditions in the geographical area where the property is located or by changes in federal low-income housing subsidies or the demand for such housing.

Shasta Hotel Investors Partnership
A California Limited Partnership
Statements of Operating Expenses
Years Ended December 31, 2016 and 2015

<u>Administrative Expenses</u>	<u>2016</u>	<u>2015</u>
Bad Debts	\$ 9,789	\$ 12,787
Desk Clerks & Assistant Manager Salaries	94,337	89,171
Manager's Salaries	41,264	34,475
Temporary Services	17,959	28,312
Consulting	855	9,299
Office Supplies	9,555	8,243
Property Management Fees	32,160	32,160
Professional Fees - Accounting	6,000	6,000
Professional Fees - Legal	0	494
Telephone & Cable	11,640	8,717
Seminars & Training	1,331	1,129
Computer Charges	340	1,392
Payroll Processing Charge	3,671	3,159
Social Services	1,802	3,048
Travel	2,984	2,832
Other Administrative	545	900
Total Administrative Expenses	234,232	242,126
<u>Utility Expenses</u>		
Electricity	51,495	50,847
Water and Sewer	20,279	16,272
Gas	5,818	5,227
Total Utility Expenses	77,592	72,346
<u>Operating and Maintenance Expenses</u>		
Janitor Salaries	16,581	15,046
Janitor Contract	90	4,544
Janitor Supplies	6,276	6,755
Exterminating	8,708	5,119
Elevator	946	7,595
Trash Removal	7,658	7,608
Security	4,416	4,369
Fire Protection	8,016	4,285
Maintenance Salaries	25,003	14,309
Temporary Maintenance Services	9,329	21,124
Maintenance Supplies and Material	339	979
Repairs	35,621	44,106
Decorating/Painting	1,630	1,570
Total Operating and Maintenance Expenses	124,613	137,409
<u>Marketing and Leasing Expenses</u>		
Advertising	0	89
Credit Reports	2,653	3,095
Total Marketing and Leasing Expenses	2,653	3,184
<u>Taxes and Insurance Expenses</u>		
Payroll Taxes	18,598	16,979
Real Estate Taxes	2,643	0
Franchise Tax	800	800
Property and Liability Insurance	22,991	23,726
Worker's Compensation	11,186	9,668
Health Insurance	41,536	28,874
Other Taxes/Insurance	329	2,038
Total Taxes and Insurance Expenses	98,083	82,285
Total Operating Expenses	\$ 537,173	\$ 537,352

