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, 2018 and 2017

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

December 31, 2018 and 2017

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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, 2018 and 2017, 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.

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, 2018 and 2017, and the results of its operations, changes in net assets – net assets without donor restrictions, 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, 2019 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, 2019

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	$ 2,627,581	$ 2,456,763
Tenant accounts receivable, net	31,836	32,991
Accounts receivable - other	94,161	113,146
Accounts receivable - property tax refund	38,916	
Prepaid expenses	33,441	11,286
Total current assets	2,825,935	2,614,186
DEPOSITS HELD IN TRUST - FUNDED		
Tenant security deposits	171,581	162,938
RESTRICTED DEPOSITS		
Replacement reserve	927,121	923,582
Operating deficit reserve	909,861	909,571
Bond proceeds reserve	192,678	112,999
Total restricted deposits	2,029,660	1,946,152
RENTAL PROPERTY		
Land, buildings and improvements	67,905,621	67,843,336
Land improvements	7,430,690	7,430,690
Furniture and equipment	1,291,385	1,291,385
	76,627,696	76,565,411
Accumulated depreciation	(29,140,634)	(27,103,945)
Total rental property, net of depreciation	47,487,062	49,461,466
OTHER ASSETS		
Tax credit monitoring fees, net	12,170	33,468
Developer fee receivable	493,000	493,000
Total other assets, net of amortization	505,170	526,468
TOTAL ASSETS	$ 53,019,408	$ 54,711,210

(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, 2018 and 2017

	2018	2017
CURRENT LIABILITIES		
Accounts payable	$ 138,479	$ 73,821
Accrued expenses	86,739	60,349
Prepaid rent	654,810	33,727
Due to affiliates	29,754	29,705
Deferred income	38,500	44,500
Accrued interest payable - first mortgage and bonds	28,000	58,294
Current maturities of long-term debt - first mortgages and bonds	385,013	359,564
Accrued interest rate swap interest	1,800	1,800
Total current liabilities	1,363,095	661,760
DEPOSITS LIABILITY		
Tenant security deposits	168,095	159,472
LONG-TERM LIABILITIES		
Mortgages and bonds payable, net of current maturities - first mortgage	10,716,546	10,996,592
Mortgages payable, net of current maturities - other mortgages	21,235,720	21,942,202
Accrued interest payable	8,285,969	7,947,131
Interest rate swap fair value	401,647	582,899
Total long-term liabilities	40,639,882	41,468,824
TOTAL LIABILITIES	42,171,072	42,290,056
NET ASSETS - NET ASSETS WITHOUT DONOR RESTRICTIONS		
CONTROLLING	3,209,701	3,149,841
NON-CONTROLLING	7,638,635	9,271,313
Total net assets - without donor restrictions	10,848,336	12,421,154
TOTAL LIABILITIES AND NET ASSETS	$ 53,019,408	$ 54,711,210

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, 2018 and 2017

	2018	2017
Rental revenue		
Rental income	$ 4,517,066	$ 4,705,206
Vacancies and concessions	(195,078)	(241,145)
Other operating income	86,385	99,625
Total rental revenue, net	4,408,373	4,563,686
Rental - operating expenses		
Administrative	837,279	742,560
Operating and maintenance	1,106,460	949,930
Utilities	443,324	466,627
Taxes and insurance	312,351	302,448
Total operating expenses	2,699,414	2,461,565
Net rental operating income	1,708,959	2,102,121
Rental - other income (expense)		
Interest income	2,598	2,619
Interest expense - first mortgage and bonds	(611,745)	(629,627)
Interest expense - other loans	(584,124)	(621,586)
Other financial expense	(75,749)	(83,908)
Depreciation	(2,014,915)	(2,014,143)
Amortization	(21,298)	(21,298)
Total other income (expense)	(3,305,233)	(3,367,943)
Net decrease in net assets from rental activities	(1,596,274)	(1,265,822)

(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, 2018 and 2017

	2018	2017
Corporate revenues		
Interest income	$ -	$ 201
Total corporate revenue		201
Corporate expenses		
Professional services	17,436	15,770
Directors' and officers insurance	1,168	1,168
Permits and fees	70	50
Other expense	85,000	85,062
Depreciation	21,774	21,774
Total corporate expenses	125,448	123,824
Net decrease in net assets from corporate activities	(125,448)	(123,623)
TOTAL DECREASE IN NET ASSETS - WITHOUT DONOR RESTRICTIONS	$ (1,721,722)	$ (1,389,445)
Total decrease net assets without donor restrictions comprised of:		
Non-controlling interest	$ (1,781,564)	$ (1,438,765)
Controlling interest	59,842	49,320
	$ (1,721,722)	$ (1,389,445)

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, 2018 and 2017

	2018	2017
Net loss	$ (1,721,722)	$ (1,389,445)
Other comprehensive income		
Change in fair value of interest rate swap:		
Unrealized gain arising during the period	181,252	190,641
Total other comprehensive income	181,252	190,641
Comprehensive income	$ (1,540,470)	$ (1,198,804)

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 - NET ASSETS WITHOUT DONOR RESTRICTIONS

Years ended December 31, 2018 and 2017

	Controlling			Non-controlling Interest	Consolidated
	Norwood Avenue Housing Corporation	Accumulated other comprehensive loss	Total	Total	Total
Balance, January 1, 2017	$ 3,100,580	$ (78)	$ 3,100,502	$ 10,551,423	$ 13,651,925
Increase in fair value of interest rate swap		19	19	190,622	190,641
Distributions				(31,967)	(31,967)
Increase (decrease) in net assets - without donor restrictions	49,320		49,320	(1,438,765)	(1,389,445)
Balance, December 31, 2017	3,149,900	(59)	3,149,841	9,271,313	12,421,154
Increase in fair value of interest rate swap		18	18	181,234	181,252
Distributions			-	(32,348)	(32,348)
Increase (decrease) in net assets - without donor restrictions	59,842		59,842	(1,781,564)	(1,721,722)
Balance, December 31, 2018	$ 3,209,742	$ (41)	$ 3,209,701	$ 7,638,635	$ 10,848,336

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, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Decrease in net assets - unrestricted	$ (1,721,722)	$ (1,389,445)
Adjustments to reconcile decrease in unrestricted net assets to net cash provided by operating activities		
Depreciation	2,036,689	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	1,155	(10,034)
Accounts receivable - other	18,985	(79,871)
Accounts receivable - property tax refund	(38,916)	
Prepaid expenses	(22,155)	48,829
Accounts payable	64,658	13,599
Accrued expenses	26,390	749
Deferred income	(6,000)	(6,000)
Accrued interest	308,544	547,909
Due to affiliates	21,894	
Tenant security deposits	(20)	(3,466)
Prepaid rent	621,083	11,115
Net cash provided by operating activities	1,342,840	1,201,557
Cash flows from investing activities		
Purchase of fixed assets	(62,285)	
Deposits to reserves	(233,580)	(322,223)
Withdrawals from reserves	150,072	240,782
Net cash provided by investing activities	(145,793)	(81,441)
Cash flows from financing activities		
Principal payments on mortgages and bonds payable - first mortgage	(254,597)	(254,807)
Principal payments on mortgages payable - other mortgage	(717,439)	(188,125)
Distribution to partners	(54,193)	(61,190)
Net cash used in financing activities	(1,026,229)	(504,122)
Net increase/(decrease) in cash and cash equivalents	170,818	615,994
Cash and cash equivalents, beginning	2,456,763	1,840,769
Cash and cash equivalents, ending	$ 2,627,581	$ 2,456,763
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 876,368	$ 692,347
Change in fair market value of interest rate swap	$ 181,252	$ 190,641

See notes to consolidated financial statements

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 two classes of net assets: net assets with donor restrictions and net assets without donor restrictions. Furthermore, information is required to segregate program service expenses from management and general expenses. Income earnings on net assets with donor restrictions are recognized as net assets without donor restrictions.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities. The Corporation has no net assets without donor restrictions.

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.

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, 2018 and 2017.

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 - net assets without donor restrictions.

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, 2018 and 2017, accumulated amortization of tax credit monitoring fees was $307,294 and $285,996, respectively.

Estimated amortization expense for the year ending December 31, 2019 is $12,170.

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, 2018 and 2017, 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, 2017, 2016, and 2015 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, 2017, 2016, 2015, and 2014 could be subject to examination by state taxing authorities, generally for four years after they are filed.

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, 2018 and up to March 29, 2019, the date the financial statements were issued. During this period, the Partnership did not have any recognizable subsequent events. Certain nonrecognizable subsequent events are described in Note P.

New Pronouncements: In August 2016, the Financial Accounting Standards Board issued ASU No. 2016-14 to simplify and improve how not-for-profit entities classify net assets as well as the information presented in the financial statements and notes about liquidity, financial performance and cash flows. The Corporation has adjusted the presentation of these statements accordingly to implement this ASU as of December 31, 2018.

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, 2018 and 2017, the Corporation received housing assistance payments of $2,883,621 and $3,132,345, 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 $18,332 and $17,798 per month during the years ended December 31, 2018 and 2017, respectively. Management fees incurred and charged to operations during the years ended December 31, 2018 and 2017, were $219,991 and $213,581, 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, 2018 and 2017 were $41,040 and $41,040, respectively, and are included in miscellaneous operating expenses on the statement of operations.

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.

NOTE E - RELATED PARTY TRANSACTIONS (Continued)

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. This fee has been entirely paid as of December 31, 2017.

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. A payment of $85,000 was made to the Agency during 2017. The 2018 payment was made after December 31, 2018.

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, 2018 and 2017 and the statements of operations for the years then ended of Shasta Hotel Investors, LP is as follows:

	2018	2017
Cash and cash equivalents	$ 3,243	$ 46,967
Accounts receivable - tenants and subsidy	12,527	13,213
Reserves	5,183	16,933
Other assets	54,919	36,290
Property and equipment	4,499,444	4,499,444
Less accumulated depreciation	(3,926,809)	(3,761,543)
Total assets	$ 648,507	$ 851,304

NOTE F - INVESTMENT IN LIMITED PARTNERSHIP (Continued)

LIABILITIES		
Accounts payable	$ 89,363	$ 45,800
Notes payable	2,000,000	2,000,000
Interest payable	1,503,684	1,443,684
Other liabilities	226,957	130,964
Total liabilities	3,820,004	3,620,448
PARTNERS' EQUITY (DEFICIT)		
Norwood Avenue Housing Corporation	(2,132,081)	(1,733,752)
Other partners	(1,039,416)	(1,035,392)
Total partners' deficit	(3,171,497)	(2,769,144)
Total liabilities and partners' equity (deficit)	$ 648,507	$ 851,304

	2018	2017
Revenue	$ 594,934	$ 543,968
Expenses	997,287	911,056
Net loss	$ (402,353)	$ (367,088)
Net loss allocated to the Corporation	$ (398,329)	$ (363,417)
Net loss allocated to other partners	$ (4,024)	$ (3,671)

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, 2018 and 2017 and was accrued as a receivable.

NOTE H - MORTGAGES AND BONDS PAYABLE

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

	2018	2017
First Mortgages and Bonds		
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, 2018 and 2017, interest expense of $346,973 and $358,463, respectively, was incurred, of which $28,594 and $30,294 remain payable as of December 31, 2018 and 2017, respectively.	$ 5,230,559	$ 5,385,156
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, 2018, the interest rate percentage was 1.72%. Interest incurred during 2018 and 2017 totaled $259,638 and $266,030, respectively. As of December 31, 2018 and 2017, interest payable was $28,000.	$ 5,871,000	$ 5,971,000
Total First Mortgages and Bonds	11,101,559	11,356,156
Other Mortgages		
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
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, 2018 and 2017, interest expense of $168,810 each year was incurred, and $2,536,899 and $2,368,090 remain payable as of December 31, 2018 and 2017, respectively.	4,062,867	4,062,867

NOTE H - MORTGAGES AND BONDS PAYABLE (Continued)

	2018	2017
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 2018 and 2017 was $273,000. During 2018 and 2017, the Corporation made payments applied to accrued interest in the amount of $227,374 and $57,779, respectively. As of December 31, 2018 and 2017, interest payable was $2,596,457 and $2,550,831, respectively.	$ 9,100,000	$ 9,100,000
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 2018 and 2017 was $36,399. During 2018, the Partnership made payments applied to accrued interest in the amount of $78,144. During 2017, the Partnership made payments applied to accrued interest in the amount of $10,076. As of December 31, 2018 and 2017, interest payable was $1,120,630 and $1,162,375, respectively.	1,213,307	1,213,307

NOTE H - MORTGAGES AND BONDS PAYABLE (Continued)

	2018	2017
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 2018 and 2017 was $137,554. No amounts were paid in 2018 and 2017. As of December 31, 2018 and 2017, interest payable was $2,003,389 and $1,865,835, 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.	629,399	1,117,002
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.	824,951	1,054,787
Total Other Mortgages	21,415,657	22,133,096
Less: Unamortized mortgage fees	(179,937)	(190,894)
Total	$ 32,337,279	$ 33,298,358

Mortgage costs of $328,705 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, 2018 and 2017, accumulated amortization of mortgage costs was $148,768 and $137,811, respectively.

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, 2018 are as follows:

2019	$ 385,013
2020	376,170
2021	398,080
2022	425,796
2023	429,372
Thereafter	30,502,785
Total	32,517,216
Less current maturities	(385,013)
Less unamortized mortgage fees	(179,937)
Net long-term portion	$ 31,952,266

There are various restrictive covenants under short-term borrowings and long-term debt relating to the occurrence of material adverse changes in financial conditions, compliance with regulatory program requirements, and limitations on additional indebtedness. Management believes the Organization was in compliance with these covenants at December 31, 2018 and 2017.

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, 2018 and 2017, in the amount of $401,647 and $582,899, 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 - net assets without donor restrictions as a separate component of other comprehensive income. In connection with the Agreement, during 2018 and 2017, the Partnership made interest payments of $177,884 and $215,169, respectively, which were charged to expense in the consolidated statement of activities. As of December 31, 2018 and 2017, $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;

NOTE I - FAIR VALUE (Continued)

- 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.

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, 2018 and 2017, the unrealized losses on the interest rate swap of $401,647 and $582,899, 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, 2018 and 2017.

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, 2018		$ 401,647	
Interest rate swap liability at December 31, 2017		$ 582,899	

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, 2018 and 2017 included cash in banks of $3,508,194 and $3,275,022, 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.

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, 2018 and 2017, and the related condensed statement of activities for the year ended for Norwood Avenue Housing Corporation is presented as follows:

STATEMENT OF FINANCIAL POSITION

	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	$ 494,985	$ 481,691
Developer fee receivable	493,000	493,000
Total current assets	987,985	974,691
NONCURRENT ASSETS		
Ground lease receivable	829,627	1,341,501
Management fee receivable	20,348	19,967
Total noncurrent assets	849,975	1,361,468
RENTAL PROPERTY, NET OF DEPRECIATION	2,625,716	2,647,490
TOTAL ASSETS	$ 4,463,676	$ 4,983,649
CURRENT LIABILITIES		
Accounts payable	$ 85,000	
Due to affiliates	52,446	$ 12,000
Total current liabilities	137,446	12,000
LONG-TERM LIABILITIES		
Mortgage payable	1,454,350	2,171,789
Total long-term liabilities	1,454,350	2,171,789
NET ASSETS	2,871,880	2,811,860
TOTAL LIABILITIES AND NET ASSETS	$ 4,463,676	$ 4,983,649

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

STATEMENT OF ACTIVITIES

	2018	2017
Revenues		
Interest income	$ -	$ 201
Ground lease income	153,120	153,120
Partnership management income	32,348	19,967
Total revenue corporate	185,468	173,288
Expenses		
Administrative fee	85,000	85,000
Professional services	17,436	15,770
Other expense	1,238	1,280
Depreciation	21,774	21,774
Total corporate expenses	125,448	123,824
Total increase in net assets	$ 60,020	$ 49,464

NOTE O – AVAILABILITY AND LIQUIDITY

The following represents the Corporation's financial assets at December 31, 2018:

Financial assets at year end:	
Cash and cash equivalents	$ 2,627,581
Tenant accounts receivable, net	31,836
Accounts receivable - other	94,161
Accounts receivable - property tax refund	38,916
Financial assets available to meet general expenditures over the next twelve months	$ 2,792,494

The Corporation's cash is maintained mostly in checking and savings accounts, totaling $2,627,581, providing the Corporation with the needed liquidity to meet cash needs for general expenditures within one year of the balance sheet date. The Corporation also has cash balances maintained in various restricted reserves that can be used to pay certain expenses, but withdrawals from these reserves must be approved by the State or the limited partner.

NOTE P – SUBSEQUENT EVENTS

On February 2018, Shasta Hotel Investors Limited Partnership, in which the Corporation is the sole limited partner, entered in to a purchase and sale agreement to sell an 80-unit apartment complex in Sacramento, California called Shasta Hotel Apartments to Shasta Housing Associates Limited Partnership (unrelated party) for $3,454,000. The transaction was completed on March 21, 2019. Shasta Hotel Investors Limited Partnership is expected to be dissolved in mid-2019.

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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, 2018, 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, 2019.

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.

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, 2019