

FINANCIAL STATEMENT AND
INDEPENDENT AUDITORS' REPORT

**SAN DIEGO HOUSING COMMISSION
OTAY VILLAS HOUSING
DEVELOPMENT PROJECT NO. 80-RHC-026**

JUNE 30, 2009

San Diego Housing Commission
Otay Villas Housing Development Project No. 80-RHC-026

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
of the San Diego Housing Commission

RE: Otay Villas Housing Development Project No. 80-RHC-026

We have audited the accompanying statement of project operations of the San Diego Housing Commission's Otay Villas Housing Development Project No. 80-RHC-026 (the Project) for the year ended June 30, 2009. The statement of project operations is the responsibility of the Project's management. Our responsibility is to express an opinion on the statement of project operations based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of project operations was prepared in conformity with the accounting and reporting practices prescribed by the California Department of Housing and Community Development, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the statement of project operations referred to above presents fairly, in all material respects, the results of operations of the San Diego Housing Commission's Otay Villas Housing Development Project No. 80-RHC-026 for the year ended June 30, 2009, on the basis of accounting described in note 1.

Our audit was conducted for the purpose of forming an opinion on the statement of project operations. The accompanying supplemental information required by the California Department of Housing and Community Development on pages 9 through 12 is presented for purposes of additional analysis and is not a required part of the statement of project operations. Such information, except for that portion marked "unaudited," on which we express no opinion has been subjected to the auditing procedures applied in the audit of the statement of project operations and, in our opinion, is fairly stated in all material respects in relation to the statement of project operations taken as a whole.

This report is intended solely for the information and use of the San Diego Housing Commission and the California Department of Housing and Community Development and is not intended to be and should not be used by anyone other than these specified parties.

Reznick Group, P.C.

Sacramento, California
December 15, 2009

San Diego Housing Commission
Otay Villas Housing Development Project No. 80-RHC-026

STATEMENT OF PROJECT OPERATIONS

Year ended June 30, 2009

Revenue	
Total gross potential rents	\$ 446,542
Less vacancy loss	<u>3,132</u>
Total rental income	443,410
Other income	
Annuity due to RHCP	(76,709)
Laundry income	10,048
Interest and NSF and late charges	<u>13,021</u>
Total revenue	<u>389,770</u>
Operating expenses	
Management fee	44,058
Administrative expenses	98,164
Utility expenses	88,448
Operating and maintenance expenses	101,885
Insurance and employee benefits	<u>43,000</u>
Total operating expenses	<u>375,556</u>
Income from operations	<u><u>\$ 14,214</u></u>

See notes to statement of project operations

San Diego Housing Commission
Otay Villas Housing Development Project No. 80-RHC-026

NOTES TO STATEMENT OF PROJECT OPERATIONS

June 30, 2009

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

The statement of project operations of San Diego Housing Commission's Otay Villas Housing Development Project No. 80-RHC-026 was prepared in conformity with the accounting and reporting practices prescribed by the California Department of Housing and Community Development (RHCP). These practices differ from accounting principles generally accepted in the United States of America (GAAP). Specifically, the statement of project operations does not reflect depreciation expense and interest income earned on restricted reserves. The statement of project operations also includes as expense the surplus cash generated during the year that will be paid to RHCP.

Use of Estimates

The preparation of the statement of project operations, in conformity with accounting and reporting practices prescribed by RHCP requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Rental Income

Rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned. All leases between the Project and the tenants of the Project are operating leases.

Annuity Grant Income (Expense)

Grant income is recorded as revenue when due from RHCP to fund budget deficits. In the year in which the project generates positive surplus cash, the project records an expense for the amount of the surplus cash that will be refunded to RHCP. The Commission submitted the budget of the Project to RHCP and as of the date of the audit report the Commission has not received a formal approval from RHCP.

San Diego Housing Commission
Otay Villas Housing Development Project No. 80-RHC-026

NOTES TO STATEMENT OF PROJECT OPERATIONS - CONTINUED

June 30, 2009

NOTE 2 - MANAGEMENT FEE

The Project incurs a management fee to the San Diego Housing Commission for central office services which includes, but is not limited to bookkeeping, clerical and management overhead expenses, such as salaries and benefits, office supplies and equipment, data processing or computer services, postage, training and telephone services. This does not include the salary of the project manager whether onsite or offsite.

SUPPLEMENTAL INFORMATION REQUIRED
BY THE CALIFORNIA DEPARTMENT OF
HOUSING AND COMMUNITY DEVELOPMENT

**Rental Housing Construction Program (RHCP) - Original
ACTUAL CASH FLOW ANALYSIS**

Reporting Period: 07/01/2008 to 06/30/2009

Contract No: 80-RHC-026
Project Name: Otay Villas
Prepared by: Christy Huerto
Date Prepared: 6/30/2009

Units/Sq. Ft. - Assisted: 78
Units/Sq. Ft. - Total: 78

Unit Months: 936

ACCOUNT NAME	Account Codes	ASSISTED UNITS		NON-ASSISTED UNITS		COMMERCIAL		TOTAL PROJECT		PROJECT VARIANCE
		Budgeted Cashflow "Unaudited" (A)	Actual Cashflow (B)	Budgeted Cashflow (C)	Actual Cashflow (D)	Proposed Cashflow (E)	Actual Cashflow (F)	Budgeted Cashflow "Unaudited" (G)	Actual Cashflow (H)	Cashflow Variance (I)
REVENUE ACCOUNTS/RENT REVENUE: 5100										
1 Rent Revenue	5120	446,027	446,542	0	0	0	0	446,027	446,542	515
2 Tenant Assistance Payments	5121	0	0	0	0	0	0	0	0	0
3 Rent revenue - Stores and Commercial	5140	0	0	0	0	0	0	0	0	0
4 Garage and Parking Spaces	5170	0	0	0	0	0	0	0	0	0
5 Flexible Subsidy Revenue	5185	0	0	0	0	0	0	0	0	0
6 Miscellaneous Rent Revenue	5190	0	0	0	0	0	0	0	0	0
7 Excess Rent	5191	0	0	0	0	0	0	0	0	0
8 Rent Revenue/Insurance	5192	0	0	0	0	0	0	0	0	0
9 Special Claims Revenue	5193	0	0	0	0	0	0	0	0	0
10 Retained Excess Income	5194	0	0	0	0	0	0	0	0	0
11 GROSS RENT REVENUE	5100T	446,027	446,542	0	0	0	0	446,027	446,542	515
VACANCIES: 5200										
Vacancy Percentage:										
		3%		0	0	0	0	3%		
11 Apartments -	5220	13,381	3,132	0	0	0	0	13,381	3,132	(10,249)
12 Stores and Commercial	5240			0	0	0	0			0
13 Rental Concessions	5250			0	0	0	0			0
14 Garage and Parking Spaces	5270			0	0	0	0			0
15 Miscellaneous	5290			0	0	0	0			0
Total Vacancies (HCD Use Only)	5200T	13,381	3,132	0	0	0	0	13,381	3,132	(10,249)
ASSISTED LIVING/BOARD & CARE REVENUES: 5300										
17 Food	5332	0	0	0	0	0	0	0	0	0
18 Recreation (Activities) and Rehabilitation	5380	0	0	0	0	0	0	0	0	0
19 Rehabilitation	5385	0	0	0	0	0	0	0	0	0
20 Other Service Revenue	5390	0	0	0	0	0	0	0	0	0
Total Living Revenue	6300T	0	0	0	0	0	0	0	0	0
FINANCIAL REVENUE: 5400										
21 Financial Revenue - Project Operations	5410	1,509	10,926	0	0	0	0	1,509	10,926	9,417
Total Financial Revenue	5400T	1,509	10,926	0	0	0	0	1,509	10,926	(12,435)
OTHER REVENUE: 5900										
22 Laundry and Vending Revenue	5910	10,012	10,048	0	0	0	0	10,012	10,048	36
23 NSF and Late Charges	5920	3,338	0	0	0	0	0	3,338	0	(3,338)
24 Damages and Cleaning Fees	5930	0	0	0	0	0	0	0	0	0
25 Forfeited Tenant Security Deposits	5940	0	0	0	0	0	0	0	0	0
26 Other Revenue	5990	0	2,095	0	0	0	0	0	2,095	2,095
Total Other Revenue	5900T	13,350	12,143	0	0	0	0	13,350	12,143	(1,207)
27 EFFECTIVE GROSS RENT (EGR)	5152T	447,505	466,479	0	0	0	0	447,505	466,479	18,974
28 TOTAL OPERATING EXPENSES	6000T	492,383	375,556	0	0	0	0	492,383	375,556	(116,827)
29 NET OPERATING INCOME (NOI)	5000T	(44,878)	90,924	0	0	0	0	(44,878)	90,924	135,802
FINANCIAL EXPENSES: 6800										
30 Non-Contingent Debt Service (specify lender)	6895									
1st Mortgage =		0	0	0	0	0	0	0	0	0
2nd Mortgage =		0	0	0	0	0	0	0	0	0
3rd Mortgage =		0	0	0	0	0	0	0	0	0
31 HCD Required Payments	6890	0	0	0	0	0	0	0	0	0
32 Lease Payment	6890	0	0	0	0	0	0	0	0	0
33 Miscellaneous Financial Expenses	6890	0	0	0	0	0	0	0	0	0
Total Financial Expenses	6800T	0	0	0	0	0	0	0	0	0
FUNDED RESERVES:										
34 Escrow Deposits	1300									
35 Replacement Reserve-Deposit	1310	0	0	0	0	0	0	0	0	0
36 Operating Reserve-Deposit	1320	0	14,215	0	0	0	0	0	14,215	14,215
37 Other Reserves (specify)	1300	0	0	0	0	0	0	0	0	0
#1	1330	0	0	0	0	0	0	0	0	0
#2	1330	0	0	0	0	0	0	0	0	0
#3	1330	0	0	0	0	0	0	0	0	0
Total Reserve Deposits		0	14,215	0	0	0	0	0	14,215	14,215

ACCOUNT NAME	Account Codes	ASSISTED UNITS		NON-ASSISTED UNITS		COMMERCIAL		TOTAL PROJECT		PROJECT VARIANCE
		Budgeted Cashflow "Unaudited" (A)	Actual Cashflow (B)	Budgeted Cashflow (C)	Actual Cashflow (D)	Proposed Cashflow (E)	Actual Cashflow (F)	Budgeted Cashflow "Unaudited" (G)	Actual Cashflow (H)	Cashflow Variance (I)
38 PROJECT CASH FLOW (CF)		(44,878)	76,709	0	0	0	0	(44,878)	76,709	121,587
ADDITIONAL REVENUE:										
39 RHCP-O Annuity Fund Request (For Assisted Units Only)		0	0	0	0	0	0	0	0	0
40 Withdrawal from Operating Reserves		0	0	0	0	0	0	0	0	0
41 Borrower Contribution		0	0	0	0	0	0	0	0	0
42 Other (specify)		0	0	0	0	0	0	0	0	0
Total Additional Revenue		0	0	0	0	0	0	0	0	0
USE OF CASH FLOW:										
43 HCD Interest Payments		0	0	0	0	0	0	0	0	0
44 Asset Mgmt Fee (CHRP-R/SUHRP & HOME-pre-UMR Only)		0	0	0	0	0	0	0	0	0
45 Asset Mgmt Fee/Prtshp Costs (MHP/HOME under UMR)		0	0	0	0	0	0	0	0	0
46 Borrower Distributions		0	0	0	0	0	0	0	0	0
47 Residual Receipt Loan Payments		0	0	0	0	0	0	0	0	0
48 Other (specify)		0	0	0	0	0	0	0	0	0
Total Use of Cash Flow		0	0	0	0	0	0	0	0	0

Rental Housing Construction Program (RHCP) - Original

REPORT OF ACTUAL OPERATING COSTS

Reporting Period: 7/1/2008 to 06/30/2009

Contract No: 80-RHC-026
 Project Name: Otay Villas
 Prepared by: Christy Huerto
 Date Prepared: 6/30/09

Units/Sq. Ft. - Assisted: 78
 Units/Sq. Ft. - Total: 78
 Unit Months: 936

ACCOUNT NAME	ACCOUNT CODES	UNIT EXPENSES						PROJECT TOTALS		
		Budgeted Assisted "Unaudited" (A)	Actual Assisted	Budgeted Non-Assisted	Actual Non-Assisted	Proposed Commercial	Actual Commercial	Budgeted Total Expenses "Unaudited"	Total Actual Expenses (B)	Project Variance (C)
MANAGEMENT FEE: 6200/6300										
1 Management Fee	6320	56,914	44,058	0	0	0	0	56,914	44,058	(12,856)
ADMINISTRATIVE EXPENSES: 6200/6300										
2 Advertising	6210	1,015	712	0	0	0	0	1,015	712	(303)
3 Apartment Resale Expense (Cooperatives)	6235	0	0	0	0	0	0	0	0	0
4 Other Renting Expenses	6250	152	173	0	0	0	0	152	173	21
5 Office Salaries	6310	46,878	42,674	0	0	0	0	46,878	42,674	(4,204)
6 Office Supplies	6311	6,753	6,398	0	0	0	0	6,753	6,398	(355)
7 Office or Model Apartment Rent	6312	0	0	0	0	0	0	0	0	0
8 Manager and Superintendent Salaries	6330	18,914	23,568	0	0	0	0	18,914	23,568	4,654
9 Manager's or Superintendent's Rent Free Unit	6331	0	8,628	0	0	0	0	0	8,628	8,628
10 Legal Expense - Project	6340	672	500	0	0	0	0	672	500	(172)
11 Audit Expense - Project	6350	1,310	1,211	0	0	0	0	1,310	1,211	(99)
12 Bookkeeping Fees/Accounting Services	6351	27,359	9,090	0	0	0	0	27,359	9,090	(18,269)
13 Telephone and Answering Service Expenses	6360	43	0	0	0	0	0	43	0	(43)
14 Bad Debt Expense	6370	7,467	(606)	0	0	0	0	7,467	(606)	(8,073)
15 Miscellaneous Administrative Expenses (specify)	6390	11,074	5,815	0	0	0	0	11,074	5,815	(5,259)
16 TOTAL ADMINISTRATIVE EXPENSES	6200/6300T	121,637	98,164	0	0	0	0	121,637	98,164	(23,473)
UTILITIES EXPENSES: 6400										
17 Fuel Oil/Coal	6420	0	0	0	0	0	0	0	0	0
18 Electricity	6450	6,510	5,433	0	0	0	0	6,510	5,433	(1,077)
19 Water	6451	65,061	26,628	0	0	0	0	65,061	26,628	(38,433)
20 Gas	6452	17,401	14,625	0	0	0	0	17,401	14,625	(2,776)
21 Sewer	6453	0	41,763	0	0	0	0	0	41,763	41,763
22 TOTAL UTILITIES EXPENSES	6400T	88,972	88,448	0	0	0	0	88,972	88,448	(524)
OPERATING AND MAINTENANCE EXPENSES: 6500										
23 Janitor and Cleaning Payroll	6510	0	0	0	0	0	0	0	0	0
24 Janitor and Cleaning Supplies	6515	0	0	0	0	0	0	0	0	0
25 Janitor and Cleaning Contracts	6517	11,300	9,271	0	0	0	0	11,300	9,271	(2,029)
26 Exterminating Payroll/Contract	6519	1,000	2,629	0	0	0	0	1,000	2,629	1,629
27 Exterminating Supplies	6520	0	0	0	0	0	0	0	0	0
28 Garbage and Trash Removal	6525	10,000	10,848	0	0	0	0	10,000	10,848	848
29 Security Payroll/Contract	6530	8,313	2,262	0	0	0	0	8,313	2,262	(6,051)
30 Grounds Payroll	6535	0	0	0	0	0	0	0	0	0
31 Grounds Supplies	6536	0	0	0	0	0	0	0	0	0
32 Grounds Contract	6537	15,000	14,313	0	0	0	0	15,000	14,313	(687)
33 Repairs Payroll	6540	36,216	33,634	0	0	0	0	36,216	33,634	(2,582)
34 Repairs Material	6541	18,719	2,162	0	0	0	0	18,719	2,162	(16,557)
35 Repairs Contract	6542	13,000	13,050	0	0	0	0	13,000	13,050	50
36 Elevator Maintenance/Contract	6545	0	0	0	0	0	0	0	0	0
37 Heating/Cooling Repairs and Maintenance	6546	0	0	0	0	0	0	0	0	0
38 Swimming Pool Maintenance/Contract	6547	0	0	0	0	0	0	0	0	0
39 Snow Removal	6548	0	0	0	0	0	0	0	0	0
40 Decorating/Payroll Contract	6560	12,000	12,548	0	0	0	0	12,000	12,548	548
41 Decorating Supplies	6561	0	0	0	0	0	0	0	0	0
42 Vehicle and Maint. Equipment Operation/Repairs	6570	3,096	1,169	0	0	0	0	3,096	1,169	(1,927)
43 Misc. Operating and Maintenance Expenses (specify)	6590	25,866	0	0	0	0	0	25,866	0	(25,866)
44 TOTAL OPERATING & MAINTENANCE EXPENSES	6500T	154,510	101,885	0	0	0	0	154,510	101,885	(52,625)

ACCOUNT NAME	ACCOUNT CODES	UNIT EXPENSES						PROJECT TOTALS		
		Budgeted Assisted "Unaudited" (A)	Actual Assisted	Budgeted Non-Assisted	Actual Non-Assisted	Proposed Commercial	Actual Commercial	Budgeted Total Expenses "Unaudited"	Total Actual Expenses (B)	Project Variance (C)
TAXES AND INSURANCE: 6700										
45 Real Estate Taxes	6710	0	0	0	0	0	0	0	0	0
46 Payroll Taxes (Project's Share)	6711	0	0	0	0	0	0	0	0	0
47 Misc. Taxes, Licenses and Permits	6719	0	0	0	0	0	0	0	0	0
48 Property and Liability Insurance (Hazard)	6720	11,885	7,367	0	0	0	0	11,885	7,367	(4,518)
49 Fidelity Bond Insurance	6721	0	0	0	0	0	0	0	0	0
50 Worker's Compensation	6722	0	0	0	0	0	0	0	0	0
51 Health Insurance and Other Employee Benefits	6723	43,573	34,877	0	0	0	0	43,573	34,877	(8,696)
52 Other Insurance	6729	551	757	0	0	0	0	551	757	206
53 TOTAL TAXES AND INSURANCE	6700T	56,009	43,000	0	0	0	0	56,009	43,000	(13,009)
ASSISTED LIVING/BOARD & CARE EXPENSES; 6900										
54 Food	6932	0	0	0	0	0	0	0	0	0
55 Recreation and Rehabilitation	6980	0	0	0	0	0	0	0	0	0
56 Rehabilitation Salaries	6983	0	0	0	0	0	0	0	0	0
57 Other Service Expenses	6990	0	0	0	0	0	0	0	0	0
58 TOTAL ASSISTED LIVING EXPENSES	6900T	0	0	0	0	0	0	0	0	0
59 SUBTOTAL OPERATING COSTS:		478,042	375,556	0	0	0	0	478,042	375,556	(102,486)
60 CONTINGENCY RESERVE (RHCP-O Only)		14,341						14,341		(14,341)
61 TOTAL OPERATING COSTS		492,383	375,556	0	0	0	0	492,383	375,556	(116,827)

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Commissioners
of the San Diego Housing Commission

We have audited the statement of project operations of the San Diego Housing Commission's Otay Villas Housing Development Project No. 80-RHC-026 (the Project) for the year ended June 30, 2009, and have issued our report thereon dated December 15, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Project's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Project's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Project's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Project's financial statements that is more than inconsequential will not be prevented or detected by the Project's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Project's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the San Diego Housing Commission and the California Department of Housing and Community Development and is not intended to be and should not be used by anyone other than these specified parties.

Reznick Group, P.C.

Sacramento, California
December 15, 2009