City Council Report

915 I Street, 1st Floor
Sacramento, CA 95814
www.cityofsacramento.org

File #: 2017-00059 | January 10, 2017 | **Consent Item 27**

Title: Update on the 2015 Audit of the Sacramento Housing and Redevelopment Agency (SHRA)

Recommendation: Receive and file.

Location: Citywide

Contact: La Shelle Dozier, Executive Director, (916) 440-1319, Sacramento Housing and Redevelopment Agency

Presenter: None

Department: Sacramento Housing and Redevelopment Agency

Attachments:
1-Description/Analysis and Background
2-Letter from TCAC Director
3-Non-Profit Board Financial Statements

Description/Analysis

Issue Detail: On October 5, 2015, the Budget and Audit Committee expressed support for the City Auditor's Audit of SHRA (Audit). On November 3, 2015, the City Council approved the same recommendation. SHRA has implemented or is in the process of implementing all recommendations contained in the audit. This report outlines the final disposition of two of the items that required additional action by SHRA which are Audit Recommendations 7 and 10.

Recommendation 7 states that SHRA should "Work with the California Tax Credit Allocation Committee (TCAC) to identify an external Local Reviewing Agency (LRA) to make recommendations on Housing Authority projects."

SHRA's response, presented to the Budget and Audit Committee and City Council, stated:

"The Agency will meet directly with the California Tax Credit Allocation Committee (TCAC) to discuss the current review procedures regarding Housing Authority projects and report back to the governing boards."

On January 14, 2016 SHRA staff, including Executive Director La Shelle Dozier, met with Mark Stivers, Executive Director of TCAC, to discuss recommendation number 7 in the Audit. Attachment 2 is Mr. Stivers' letter summarizing that discussion. His letter said, in summary, "TCAC does not have a problem with the current arrangement. SHRA and a few other housing authorities with projects of their own double as LRAs. The LRA review, however, is advisory only and not used for scoring purposes. TCAC uses the review to support claims in the application relating to financing, experience, entitlements, and amenities and to ascertain the community's level of support for the project. In other jurisdictions, city and county planning and housing department often serve as LRAs. In your case, you are the housing department for the city and county and are in the best position to comment on project financing and developer experience." On June 9, 2016 the City's Budget and Audit Committee approved a motion recommending that SHRA continue as the California Tax Credit Allocation Committee Local Reviewing Agency for Housing Projects seeking Low-Income Housing Tax Credits.

Recommendation 10 requested that "SHRA present detailed financial information on the nonprofit corporations during the annual CAFR presentation." Staff was unable to attach this information to the CAFR as the nonprofit corporations had yet to approve the disclosure of these reports to Council. The boards of the three non-profits, Shasta, Norwood, and SHARP, have now all approved this disclosure and the reports are included as Attachment 3.

Policy Considerations: None.

Economic Impacts: None.

Environmental Considerations:

California Environmental Quality Act (CEQA): The proposed actions consist of governmental fiscal activities which do not involve a commitment to any specific project, and as such, does not constitute a "project" under the California Environmental Quality Act (CEQA) Guidelines Section 15378 (b)(4).

National Environmental Policy Act (NEPA): The proposed administrative and management activity is an exempt activity under the NEPA, 24 Code of Federal Regulations (CFR) 58.34 (a)(3).

Rationale for Recommendation: No specific recommendation. Documents attached to this report pertain to Recommendations 7 and 10 of the City's audit of SHRA.

Financial Considerations: Not applicable.

LBE/M/WBE and Section 3 requirements: Not applicable.

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

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January 14, 2016

Ms. LaShelle Dozier
Sacramento Housing and Redevelopment Agency
801 12th Street
Sacramento, CA 95814

Dear Ms. Dozier:

I appreciate you and your management team coming to my office today to discuss the Sacramento Housing and Redevelopment Agency's (SHRA) role as a Local Reviewing Agency (LRA) for the purposes of making recommendations on [former] Housing Authority projects seeking Low-Income Housing Tax Credits.

In general, while there may be a perception conflict with SHRA conducting the LRA review on its own projects, the Tax Credit Allocation Committee (TCAC) does not have a problem with the current arrangement. SHRA and a few other housing authorities with projects of their own double as LRAs. The LRA review, however, is advisory only and not used for scoring purposes. TCAC uses the review to support claims in the application relating to financing, experience, entitlements, and amenities and to ascertain the community's level of support for the project. In other jursdictions, city and county planning and housing departments often serve as the LRAs. In your case, you are the housing department for the city and county and are in the best position to comment on project financing and developer experience. While the planning departments clearly can provide review elements (they already certify entitlements as part of attachment 26 of the application) and express the city's or county's level of support, they and you ultimately have the same governing boards, so it is not clear what additional value or independence would derive from having the planning departments assume or share the LRA role. Moreover, as the questionnaire relates to the city's or county's level of support for a project, I find it implausible that SHRA would submit a project to TCAC that did not have the city's or county's full support, making this portion of the LRA review mostly moot in your case.

Ultimately, TCAC will defer to whomever the City or County of Sacramento designate as their LRA for SHRA or any other projects. To date, however, we have been pleased with SHRA's role as an LRA.

If I can provide any additional assistance in following up on the results of the recent audit, please do not hesitate to ask.

Sincerely,

Mark Stivers

Mark Stivers
Executive Director

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, 2015

mgo Certified Public Accountants

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

Year Ended December 31, 2015

Table of Contents

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, 2015, 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, 2015, 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
August 31, 2016

Sacramento Housing Authority Repositioning Program, Inc.
(A Component Unit of the Sacramento Housing and Redevelopment Agency)
Statement of Net Position
December 31, 2015

Assets		
Current Assets:		
Cash and equivalents	$	3,905,029
Accounts receivable		572
Total current assets		3,905,601
Noncurrent Assets:		
Accounts receivable		103,400
Other assets		253,642
Total noncurrent assets		357,042
Total assets		4,262,643
Liabilities and Net Position		
Current Liabilities:		
Accounts payable		2,200
Accrued liabilities		3,348
Unearned revenue		305
Total current liabilities		5,853
Net Position		
Unrestricted		
Total net position	$	4,256,790

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 Redevelopement Agency)
Statement of Revenues, Expenses and Change in Net Position
Year Ended December 31, 2015

Operating Revenues	
Developer fees	$ 487,500
Management fees	60,600
Tenant rent	216
Miscellaneous	4,379
Total Operating Revenues	552,695
Operating Expenses	
Administrative services	77,161
Services and supplies	13,924
Utilities	4,099
Total Operating Expenses	95,184
Operating Income	457,511
Nonoperating Revenues	
Rental subsidy	4,354
Interest income	32,322
Total Nonoperating Revenues	36,676
Change in net position	494,187
Net position, beginning of year	3,762,603
Net position, end of year	$ 4,256,790

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, 2015

Cash flows from operating activities:	
Cash receipts from tenants	$ 2,227
Cash receipts from development fees	464,700
Cash paid for administrative expenses	(77,950)
Cash paid to suppliers for goods and services	(14,106)
Cash paid to suppliers for utilities	(4,099)
Net cash provided by operating activities	370,772
Cash flows from noncapital financing activities:	
Cash receipts from rental subsidy	4,354
Cash flows from investing activities:	
Capital contributions	(168,542)
Loans repayment	779,821
Interest received	32,322
Net cash provided by investing activities	643,601
Net increase in cash and cash equivalents	1,018,727
Cash and cash equivalents, beginning of year	2,886,302
Cash and cash equivalents, ending	3,905,029

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 457,511
Adjustments to reconcile operating income to net cash provided by operating activities	
Increase in accounts receivable	(82,799)
Decrease in prepaid items	9,205
Decrease in accounts payable	(9,994)
Decrease in accrued liabilities	(182)
Decrease in unearned revenue	(2,969)
Net cash provided by operating activities	370,772

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

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 3 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 Washington Plaza Housing Associates, LLC ("WPHA LLC") 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.

- 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.

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 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 and petty cash.

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 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, 2015, the Corporation did not have any investments.

Accounts Receivable

Balances in accounts receivable include $80,600 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 through the LLC. Also, the Corporation recognizes $22,800 in accrued developer fees from WPHA LP and $572 in tenant accounts receivable related to the Sutterview LP.

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, 2015, 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, 2015, 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 tenant rent associated with the Sutterview LP Apartments low income housing apartment project, 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.

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.

NOTE C – CASH AND INVESTMENTS

At December 31, 2015, the Corporation's cash and cash equivalents was $3,905,029, of which $100 was petty cash and $3,904,929 was 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, 2015, the Corporation was not exposed to custodial credit risk.

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 Partnership Agreement. As of December 31, 2015, partnership management fees payable from WPHA LP, Sierra Vista LP, and Sutterview LP to the Corporation totaled $40,600, $20,000 and $20,000, 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, 2015, 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".

Sutterview 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.

NOTE F – SUBSEQUENT EVENT

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% 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.

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, 2015 and 2014

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

December 31, 2015 and 2014

TABLE OF CONTENTS

RICHARDSON & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

550 Howe Avenue, Suite 210
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FAX: (916) 564-8728

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, 2015 and 2014, 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, 2015 and 2014, 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 25, 2016 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 25, 2016

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2015 and 2014

	2015	2014
CURRENT ASSETS		
Cash and cash equivalents	$ 1,843,964	$ 1,739,636
Tenant accounts receivable, net	20,299	7,142
Accounts receivable - other	15,717	55,357
Prepaid expenses	32,467	94,412
Total current assets	1,912,447	1,896,547
DEPOSITS HELD IN TRUST - FUNDED		
Tenant security deposits	161,500	145,044
RESTRICTED DEPOSITS		
Replacement reserve	821,627	767,180
Operating deficit reserve	909,083	908,580
Bond proceeds reserve	84,877	122,925
Total restricted deposits	1,815,587	1,798,685
RENTAL PROPERTY		
Land, buildings and improvements	67,843,336	67,843,336
Land improvements	7,430,690	7,430,690
Furniture and equipment	1,291,385	1,291,385
	76,565,411	76,565,411
Accumulated depreciation	(23,032,110)	(20,996,193)
Total rental property, net of depreciation	53,533,301	55,569,218
OTHER ASSETS		
Mortgage costs, net	212,808	223,765
Tax credit monitoring fees, net	76,064	97,362
Developer fee receivable	493,000	493,000
Deposits	1,373	2,276
Total other assets, net of amortization	783,245	816,403
TOTAL ASSETS	$ 58,206,080	$ 60,225,897

(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, 2015 and 2014

	2015	2014
CURRENT LIABILITIES		
Accounts payable	$ 92,065	$ 196,215
Accrued expenses	80,606	78,068
Prepaid rent	19,260	32,388
Due to affiliates	108,644	76,987
Accrued interest payable - first mortgage and bonds	59,733	59,666
Accrued interest payable - other mortgages		2,213
Current maturities of long-term debt - first mortgages and bonds	635,607	632,067
Current maturities of long-term debt - other mortgages	162,962	297,298
Accrued interest rate swap interest	1,800	1,800
Total current liabilities	1,160,677	1,376,702
DEPOSITS LIABILITY		
Tenant security deposits	161,000	144,544
LONG-TERM LIABILITIES		
Mortgages and bonds payable, net of current maturities - first mortgage	11,607,991	12,278,577
Mortgages payable, net of current maturities - other mortgages	22,445,980	22,622,814
Accrued interest payable	6,806,514	6,228,970
Interest rate swap fair value	1,064,331	1,156,971
Total long-term liabilities	41,924,816	42,287,332
TOTAL LIABILITIES	43,246,493	43,808,578
NET ASSETS - UNRESTRICTED		
CONTROLLING	3,038,076	2,987,462
NON-CONTROLLING	11,921,511	13,429,857
Total net assets - unrestricted	14,959,587	16,417,319
TOTAL LIABILITIES AND NET ASSETS	$ 58,206,080	$ 60,225,897

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, 2015 and 2014

	2015	2014
Rental revenue		
Rental income	$ 4,377,005	$ 4,378,708
Vacancies and concessions	(156,572)	(383,705)
Other operating income	97,329	119,033
Total rental revenue, net	4,317,762	4,114,036
Rental - operating expenses		
Administrative	716,879	716,520
Operating and maintenance	824,463	960,311
Utilities	419,032	401,305
Taxes and insurance	321,833	330,548
Total operating expenses	2,282,207	2,408,684
Net rental operating income	2,035,555	1,705,352
Rental - other income (expense)		
Interest income	2,778	3,039
Interest expense - first mortgage and bonds	(695,726)	(743,137)
Interest expense - other loans	(615,763)	(615,763)
Other financial expense	(78,146)	(99,501)
Depreciation	(2,014,143)	(2,014,143)
Amortization	(32,255)	(32,255)
Total other income (expense)	(3,433,255)	(3,501,760)
Net decrease in net assets from rental activities	(1,397,700)	(1,796,408)

(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, 2015 and 2014

	2015	2014
Corporate revenues		
Interest income	$ 202	$ 221
Miscellaneous income		3,078
Total corporate revenue	202	3,299
Corporate expenses		
Professional services	13,850	14,725
Directors' and officers insurance	1,057	865
Permits and fees	36	91
Other expense	85,000	85,000
Franchise tax		800
Depreciation	21,774	21,774
Total corporate expenses	121,717	123,255
Net decrease in net assets from corporate activities	(121,515)	(119,956)
TOTAL DECREASE IN NET ASSETS - UNRESTRICTED	$ (1,519,215)	$ (1,916,364)
Total decrease in unrestricted net assets comprised of:		
Non-controlling interest	$ (1,569,820)	$ (1,949,333)
Controlling interest	50,605	32,969
	$ (1,519,215)	$ (1,916,364)

See notes to consolidated financial statements

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31, 2015 and 2014

	2015	2014
Net loss	$ (1,519,215)	$ (1,916,364)
Other comprehensive income		
Change in fair value of interest rate swap:		
Unrealized loss arising during the period	92,640	(30,013)
Total other comprehensive income	92,640	(30,013)
Comprehensive income	$ (1,426,575)	$ (1,946,377)

See notes to consolidated financial statements

NORWOOD AVENUE HOSUING 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, 2015 and 2014

	Controlling			Non-controlling Interest	Consolidated
	Norwood Avenue Housing Corporation	Accumulated other comprehensive loss	Total	Total	Total
Balance, January 1, 2014	$ 2,954,609	$ (113)	$2,954,496	$ 15,440,094	$18,394,590
Decrease in fair value of interest rate swap		(3)	(3)	(30,010)	(30,013)
Distributions				(30,894)	(30,894)
Increase (decrease) in net assets - unrestricted	32,969		32,969	(1,949,333)	(1,916,364)
Balance, December 31, 2014	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

See notes to consolidated financial statements

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Decrease in net assets - unrestricted	$ (1,519,215)	$ (1,916,364)
Adjustments to reconcile decrease in unrestricted net assets to net cash provided by operating activities		
Depreciation	2,035,917	2,035,917
Amortization	32,255	32,255
Changes in:		
Tenant accounts receivable, net	(13,157)	427
Accounts receivable - other	39,640	(43,519)
Deposits	903	
Prepaid expenses	62,445	13,079
Accounts payable	(104,150)	174,755
Accrued expenses	2,538	(20,854)
Accrued interest	575,398	487,404
Tenant security deposits		(500)
Prepaid rent	(13,128)	724
Net cash provided by operating activities	1,099,446	763,324
Cash flows from investing activities		
Deposits to reserves	(672,482)	(612,774)
Withdrawals from reserves	655,580	627,506
Net cash provided by investing activities	(16,902)	14,732
Cash flows from financing activities		
Principal payments on mortgages and bonds payable - first mortgage	(667,046)	(588,001)
Principal payments on mortgages payable - other mortgage	(311,170)	(361,588)
Distribution to partners		(30,876)
Net cash used in financing activities	(978,216)	(980,465)
Net increase/(decrease) in cash and cash equivalents	104,328	(202,409)
Cash and cash equivalents, beginning	1,739,636	1,942,045
Cash and cash equivalents, ending	$ 1,843,964	$ 1,739,636
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 736,091	$ 871,496
Change in fair market value of interest rate swap	$ 92,640	$ (30,013)

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, 2015 and 2014

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, who approves the annual budget, and approves 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.

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, 2015 and 2014.

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 Fees, Costs and Amortization: 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, 2015 and 2014, accumulated amortization of mortgage costs was $115,897 and $104,940, respectively.

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, 2015 and 2014, accumulated amortization of tax credit monitoring fees was $243,400 and $222,102, respectively.

Estimated amortization expense is $32,255 per year through December 31, 2018, $23,127 in 2019, and $10,957 in 2020.

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, 2015 and 2014, 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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Corporation's federal returns for the years ended December 31, 2014, 2013, and 2012 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, 2014, 2013, 2012, and 2011 could be subject to examination by state taxing authorities, generally for four years after they are filed.

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, 2015 and up to March 25, 2016, the date the financial statements were issued. During this period, the Partnership did not have any recognizable or nonrecognizable subsequent events.

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. The agreement expires October 1, 2059. During the years ended December 31, 2015 and 2014, the Corporation received housing assistance payments of $2,904,966 and $2,769,967, 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 $16,920 and $16,560 per month during the years ended December 31, 2015 and 2014, respectively. Management fees incurred and charged to operations during the years ended December 31, 2015 and 2014, were $203,040 and $198,720, 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, 2015 and 2014 were $38,880, 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. As of December 31, 2015 and 2014, the related payable was $21,969 and is included in due to affiliates on the consolidated statement of financial position.

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 2015 and 2014.

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, 2015 and 2014 and the statements of operations for the years then ended of Shasta Hotel Investors, LP is as follows:

	2015	2014
Cash and cash equivalents	$ 109,396	$ 110,953
Accounts receivable - tenants and subsidy	6,802	8,385
Reserves	2,084	2,079
Other assets	34,044	34,484
Property and equipment	4,499,444	4,499,444
Less accumulated depreciation	(3,431,009)	(3,265,741)
Total assets	$ 1,220,761	$ 1,389,604

NOTE F - INVESTMENT IN LIMITED PARTNERSHIP (Continued)

	2015	2014
LIABILITIES		
Accounts payable	$ 56,115	$ 35,011
Notes payable	2,000,000	2,000,000
Interest payable	1,323,684	1,263,684
Other liabilities	96,835	76,461
Total liabilities	3,476,634	3,375,156
PARTNERS' EQUITY (DEFICIT)		
Norwood Avenue Housing Corporation	(1,225,614)	(957,996)
Other partners	(1,030,259)	(1,027,556)
Total partners' deficit	(2,255,873)	(1,985,552)
Total liabilities and partners' equity (deficit)	$ 1,220,761	$ 1,389,604

	2015	2014
Revenue	$ 508,171	$ 555,533
Expenses	778,492	712,425
Net loss	$ (270,321)	$ (156,892)
Net loss allocated to the Corporation	$ (267,618)	$ (155,323)
Net loss allocated to other partners	$ (2,703)	$ (1,569)

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, 2015 and 2014, but 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:

	2015	2014
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, 2015 and 2014, interest expense of $376,289 and $383,618, respectively, was incurred, of which $31,733 and $31,666 remain payable as of December 31, 2015 and 2014, respectively.	$ 5,665,598	$ 5,792,644
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, 2015, the interest rate percentage was 0.33%. Interest incurred during 2015 and 2014 totaled $303,004 and $325,339, respectively. As of December 31, 2015 and 2014, interest payable was $28,000.	6,578,000	7,118,000
Total First Mortgages and Bonds	12,243,598	12,910,644
Other Mortgages		
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 matures on June 1, 2016, at which time $54,587 is due. As of December 31, 2014 and 2013, interest expense of $16,433 and $34,180, respectively, was incurred, of which $0 and $2,213 remain payable as of December 31, 2015 and 2014, respectively.	162,962	474,132
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, fifty-seven 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 H - MORTGAGES AND BONDS PAYABLE (Continued)

	2015	2014
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, 2015 and 2014, interest expense of \$168,810 each year was incurred, and \$2,030,470 and \$1,861,659 remains payable as of December 31, 2015 and 2014, respectively.	4,062,867	4,062,867
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 2015 and 2014 was \$273,000. During 2015 and 2014, the Corporation made payments applied to accrued interest in the amount of \$38,220. As of December 31, 2015 and 2014, interest payable was \$2,100,830 and \$1,866,050, 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 2015 and 2014 was \$36,399. During 2014, interest payments of \$30,288 were made. No amounts were paid in 2015. As of December 31, 2015 and 2014, interest payable was \$1,084,487 and \$1,048,088, respectively.	1,213,307	1,213,307

NOTE H - MORTGAGES AND BONDS PAYABLE (Continued)

	2015	2014
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 2015 and 2014 was $137,554. No amounts were paid. As of December 31, 2015 and 2014, interest payable was $1,590,727 and $1,453,173, 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.	1,429,886	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.	1,054,787	1,054,787
Total Other Mortgages	22,608,942	22,920,112
Total	$ 34,852,540	$ 35,830,756

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, 2015 are as follows:

2016	$ 798,569
2017	254,775
2018	359,564
2019	385,013
2020	376,170
Thereafter	32,678,449
Total	34,852,540
Less current maturities	(798,569)
Net long-term portion	$ 34,053,971

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, 2015 and 2014, in the amount of $1,064,331 and $1,156,971, 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 2015 and 2014, interest of $303,004 and $325,339, respectively, was charged to expense in the consolidated statement of activities. As of December 31, 2015 and 2014, $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.

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, 2015 and 2014, the unrealized losses on the interest rate swap of $1,064,331 and $1,156,971, 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, 2015 and 2014.

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, 2015	$ -	$ 1,064,331	$ -
Interest rate swap liability at December 31, 2014	$ -	$ 1,156,971	$ -

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, 2015 and 2014 included cash in banks of $2,503,335 and $2,342,460, 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, 2015 and 2014, and the related condensed statement of activities for the year ended for Norwood Avenue Housing Corporation is presented as follows:

	2015	2014
CURRENT ASSETS		
Cash and cash equivalents	$ 633,169	$ 733,335
Developer fee receivable	493,000	493,000
Total current assets	1,126,169	1,226,335
NONCURRENT ASSETS		
Ground lease receivable	1,370,113	1,216,993
Management fee receivable	19,157	
Total noncurrent assets	1,389,270	1,216,993
RENTAL PROPERTY, NET OF DEPRECIATION	2,691,039	2,712,813
TOTAL ASSETS	$ 5,206,478	$ 5,156,141
CURRENT LIABILITIES		
Accounts payable		$ 425
LONG-TERM LIABILITIES		
Mortgage payable	2,484,673	2,484,673
Due to affiliates	21,969	21,969
Total long-term liabilities	2,506,642	2,506,642
NET ASSETS	2,699,836	2,649,074
TOTAL LIABILITIES AND NET ASSETS	$ 5,206,478	$ 5,156,141

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

STATEMENT OF ACTIVITIES

	2015	2014
Revenues		
Interest income on developer fee receivable		
Interest income	$ 202	$ 221
Ground lease income	153,120	153,120
Other income		3,078
Partnership management income	19,157	
Total revenue corporate	172,479	156,419
Expenses		
Administrative fee	85,000	85,000
Professional services	13,850	14,725
Other expense	1,093	1,756
Depreciation	21,774	21,774
Total corporate expenses	121,717	123,255
Total increase in net assets	$ 50,762	$ 33,164

RICHARDSON
& COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

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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, 2015, 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 25, 2016.

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 25, 2016

SHASTA HOTEL INVESTORS PARTNERSHIP
A CALIFORNIA LIMITED PARTNERSHIP

FINANCIAL STATEMENTS

WITH AUDITOR'S REPORT

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

THOMAS TOMASZEWSKI
CERTIFIED PUBLIC ACCOUNTANT

Shasta Hotel Investors Partnership
A California Limited Partnership
Financial Statements
For the Years Ended December 31, 2015 and 2014

Table of Contents

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, 2015 and 2014, 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 and 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, 2015 and 2014, 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 and 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 for 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 9, 2016

Shasta Hotel Investors Partnership
A California Limited Partnership
Balance Sheets
December 31, 2015 and 2014

Investment in Real Estate Held for Lease	2015	2014
Buildings and Improvements	$ 4,490,277	$ 4,490,277
Furniture and Equipment	9,167	9,167
Less: Accumulated Depreciation	(3,431,009)	(3,265,741)
Net Investment in Real Estate	1,068,435	1,233,703
Other Assets		
Cash - Operating Checking (Note 2)	109,396	110,953
Tenant Security Deposits	17,997	16,213
Resident Recreation reserve	2,051	2,046
Accounts Receivable - tenants & subsidy	6,802	8,385
Reserve for Replacements (Note 7)	0	0
Operating Reserves (Note 7)	0	0
Repair Reserve	33	33
Prepaids	15,320	16,949
Deposits	727	1,322
Total Other Assets	152,326	155,901
Total Assets	$ 1,220,761	$ 1,389,604
Liabilities and Partners' Deficit		
Liabilities Applicable to Investment in Real Estate		
Long-Term Debt (Note 4)	$ 2,000,000	$ 2,000,000
Interest Payable	1,323,684	1,263,684
Accounts Payable	56,115	35,011
Prepaid Rents	3,973	1,266
Partnership Management Fee Payable	74,870	58,997
Security Deposits	17,992	16,198
Total Liabilities Applicable to Investment in Real Estate	3,476,634	3,375,156
Partners' Deficit	(2,255,873)	(1,985,552)
Total Liabilities and Partners' Deficit	$ 1,220,761	$ 1,389,604

See Notes to Financial Statements

Shasta Hotel Investors Partnership
A California Limited Partnership
Statements of Operations
Years Ended December 31, 2015 and 2014

Income		2015		2014
Gross Potential Tenant Rent	$	466,517	$	463,610
Less: Vacancy Loss		(21,428)		(17,436)
Net Residential Rental		445,089		446,174
Total Rent		445,089		446,174
Miscellaneous Tenant Charges		9,624		4,194
Operating Subsidies		50,000		100,000
Laundry & Vending Income		3,449		3,416
Other Income		0		1,740
Interest Income		9		9
Total Income		508,171		555,533
Operating Expenses				
Administrative		242,128		223,379
Utilities		72,346		68,884
Operating and Maintenance		137,409		104,805
Marketing and Leasing		3,184		1,788
Taxes and Insurance		82,285		72,893
Total Operating Expenses		537,352		471,749
Net Operating Income/(Loss) Before Partnership and Financial Expenses		(29,181)		83,784
Partnership and Financial Expenses				
Partnership Management Fee		15,872		15,410
Interest		60,000		60,000
Total Partnership and Financial Expenses		75,872		75,410
Net Income/(Loss) Before Depreciation and Amortization		(105,053)		8,374
Depreciation		165,268		165,266
Amortization		0		0
Net Loss	$	(270,321)	$	(156,892)

See Notes to Financial Statements

Shasta Hotel Investors Partnership
A California Limited Partnership
Statements of Partners' Deficit
Years Ended December 31, 2015 and 2014

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

		General Partner	Limited Partner	Total
Partners' Deficit, January 1, 2014	$	(42,288) $	(1,786,372) $	(1,828,660)
Capital Contributions		0	0	0
Net Loss - See note below		(1,569)	(155,323)	(156,892)
Partners' Deficit, December 31, 2014	$	(43,857) $	(1,941,695) $	(1,985,552)

Note: The profit and loss are distributed on the following basis:
General Partner: 1%
Limited Partner: 99%

Shasta Hotel Investors Partnership
A California Limited Partnership
Statements of Cash Flows
Years Ended December 31, 2015 and 2014

Cash Flows from Operating Activities		**2015**	**2014**
Net Loss	$	(270,321) $	(156,892)
Adjustments to Reconcile Net Income/(Loss)			
to Net Cash Provided By/ (Used) In Operating Activities:			
Depreciation		165,268	165,266
(Increase) Decrease in Operating Assets			
Accounts Receivable Tenants & Subsidy		1,583	(2,281)
Resident Recreation Cash		(5)	(4)
Security Deposits Reserve		(1,784)	(4,231)
Prepaids & Deposits		2,224	(186)
Increase (Decrease) in Operating Liabilities			
Accounts Payable		21,104	(272)
Accrued Interest		60,000	60,000
Prepaid Rents		2,707	(48)
Partnership Management Fee Payable		15,873	15,409
Security Deposits		1,794	3,147
Total Adjustments		268,764	236,800
Net Cash (Used)/ Provided by Operating Activities		(1,557)	79,908
Cash Flows from Investing Activities			
Withdrawals from Operating Reserves & Repairs Reserve		0	0
Net Cash Flow Provided By Investing Activities		0	0
Net Increase/(Decrease) in Cash		(1,557)	79,908
Cash at the beginning of the year		110,953	31,045
Cash at the end of the year	$	109,396 $	110,953
Supplemental Data: Cash Interest Paid	$	0 $	0

See Notes to Financial Statements

Shasta Hotel Investors Partnership
A California Limited Partnership
Notes to the Financial Statements
December 31, 2015 and 2014

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

A summary of the Partnership's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

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, 2015 or 2014.

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.

Deferred Fees and Amortization

Financing costs are amortized over the term of the mortgage loan using the straight-line method. 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 isn't materially different for the results that would have been obtained under the effective yield method.

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

	2015	2014
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 \$1,323,684 and \$1,263,684 was payable at December 31, 2015 and 2014, 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 2016-2020, 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 \$15,872 and \$15,410 for 2015 and 2014, 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, 2015 and 2014 are as follows:

	2015	2014
Partnership Management Fee	\$74,870	\$ 58,997

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 2015 and 2014.

The reserves have not been funded in accordance with requirements at December 31, 2015 and 2014.

	Beginning Balance 1/1/15	Additions & Interest	Withdrawals & Transfers	Ending Balance 12/31/15
Replacement Reserve	$ 0	0	0	0
Repair Reserve	33	0	0	33
Operating Reserve	0	0	0	0
Total	$ 33	$ 0	$ 5	$ 33

	Beginning Balance 1/1/14	Additions & Interest	Withdrawals & Transfers	Ending Balance 12/31/14
Replacement Reserve	$ 0	0	0	0
Repair Reserve	33	0	0	33
Operating Reserve	0	0	0	0
Total	$33	$ 0	$0	$ 33

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 2015, totaling $134,655 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, 2015 and 2014 accounts receivable consist of the following:

	2015	2014
Tenant & Subsidy rents receivable	$ 6,802	$ 8,385

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 2016 to allow the project to operate.

Subsequent Events

Subsequent events have been evaluated through February 9, 2016, 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, 2015 and 2014

Administrative Expenses	2015	2014
Bad Debts	$ 12,797	$ 9,850
Desk Clerks & Assistant Manager Salaries	89,171	88,430
Manager's Salaries	34,475	41,281
Temporary Services	28,312	20,019
Consulting	9,299	0
Office Supplies	8,243	7,067
Property Management Fees	32,160	32,160
Professional Fees - Accounting	6,000	6,000
Professional Fees - Legal	494	337
Telephone & Cable	8,717	6,554
Seminars & Training	1,129	118
Computer Charges	1,392	1,481
Payroll Processing Charge	3,159	2,821
Social Services	3,048	3,350
Travel	2,832	2,330
Other Administrative	900	1,601
Total Administrative Expenses	242,128	223,379
Utility Expenses		
Electricity	50,847	48,754
Water and Sewer	16,272	14,833
Gas	5,227	5,297
Total Utility Expenses	72,346	68,884
Operating and Maintenance Expenses		
Janitor Salaries	15,046	0
Janitor Contract	4,544	210
Janitor Supplies	6,755	9,459
Exterminating	5,119	5,052
Elevator	7,595	10,133
Trash Removal	7,608	6,538
Security	4,389	2,331
Fire Protection	4,285	2,982
Maintenance Salaries	14,309	3,072
Temporary Maintenance Services	21,124	43,420
Maintenance Supplies and Material	979	293
Repairs	44,106	19,777
Decorating/Painting	1,570	1,538
Total Operating and Maintenance Expenses	137,409	104,805
Marketing and Leasing Expenses		
Advertising	89	123
Credit Reports	3,095	1,665
Total Marketing and Leasing Expenses	3,184	1,788
Taxes and Insurance Expenses		
Payroll Taxes	16,979	14,049
Franchise Tax	800	800
Property and Liability Insurance	23,726	19,844
Worker's Compensation	9,868	10,122
Health Insurance	28,874	27,558
Other Taxes/Insurance	2,038	520
Total Taxes and Insurance Expenses	82,285	72,893
Total Operating Expenses	$ 537,352	$ 471,749

Form 990-N

Department of the Treasury
Internal Revenue Service

Electronic Notice (e-Postcard)

for Tax-Exempt Organization not Required to File Form 990 or 990-EZ

OMB No. 1545-2085

2015

Open to Public Inspection

A For the **2015** Calendar year, or tax year beginning **2015-01-01** and ending **2015-12-31**

B Check if available
- ☐ Terminated for Business
- ☑ Gross receipts are normally $50,000 or less

C Name of Organization: **SHASTA HOTEL CORPORATION**
801 12th Street 4th Floor
Sacramento, CA, US, 95814

D Employee Identification Number **68-0300448**

E Website:

F Name of Principal Officer: **Brad Wiblin**
801 12th Street 4th Floor,
Sacramento, CA, US, 95814

Privacy Act and Paperwork Reduction Act Notice: We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws.

The organization is not required to provide information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. The rules governing the confidentiality of the Form 990-N is covered in code section 6104.

The time needed to complete and file this form and related schedules will vary depending on the individual circumstances. The estimated average times is 15 minutes.

Note: This image is provided for your records only. Do Not mail this page to the IRS. The IRS will not accept this filing via paper. You must file your Form 990-N (e-Postcard) electronically.

IRS

Confirmation

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Your Form 990-N(e-Postcard) has been submitted to the IRS

- **Organization Name:** SHASTA HOTEL CORPORATION
- **EIN:** 680300448
- **Tax Year:** 2015
- **Tax Year Start Date:** 01-01-2015
- **Tax Year End Date:** 12-31-2015
- **Submission ID:** 10065520161720348838
- **Filing Status Date:** 06-20-2016
- **Filing Status:** Accepted

MANAGE FORM 990-N SUBMISSIONS

State of California
Franchise Tax Board

199N e-Postcard - Confirmation

Print this page for your records. The Confirmation Number below is proof that you successfully filed your e-Postcard.

We received your FTB 199N California e-Postcard on June 20, 2016 02:26 PM.

Confirmation Number: 185635717204

Entity Information

Entity ID: 1856357

Entity Name: SHASTA HOTEL CORPORATION

Account Period Beginning: JANUARY 01, 2015

Account Period Ending: DECEMBER 31, 2015

This is not your entity's first year in business.

Your entity has not terminated or gone out of business.

Your entity has not changed the account period.

Gross Receipts: $15,872

This is not an amended return.

An IRS Form 1023/1024 is not pending.

Date IRS Form 1023/1024 Filed: N/A

FEIN: 680300448

Doing Business As:

Website Address:

Entity's Mailing Address

801 12TH STREET 4TH FLOOR
BERN WIKHAMMER
SACRAMENTO, CA 95814

Principal Officer's Information

Name: BRAD WIBLIN
801 12TH STREET 4TH FLOOR
BERN WIKHAMMER
SACRAMENTO, CA 95814

Contact Information

Name: RICHARD WATSON CPA

Phone: 916.606.0552

IN

MAIL TO:
Registry of Charitable Trusts
P.O. Box 903447
Sacramento, CA 94203-4470
Telephone: (916) 445-2021

WEBSITE ADDRESS:
http://ag.ca.gov/charities/

ANNUAL REGISTRATION RENEWAL FEE REPORT TO ATTORNEY GENERAL OF CALIFORNIA

Sections 12586 and 12587, California Government Code
11 Cal. Code Regs. sections 301-307, 311 and 312

Failure to submit this report annually no later than four months and fifteen days after the end of the organization's accounting period may result in the loss of tax exemption and the assessment of a minimum tax of $800, plus interest, and/or fines or filing penalties as defined in Government Code Section 12586.1. IRS extensions will be honored.

State Charity Registration Number 089751

SHASTA HOTEL CORPORATION
C/O SACRAMENTO HOUSING AND REDEVELOPMENT
Name of Organization

801 12TH STREET
Address (Number and Street)

SACRAMENTO, CA 95814
City or Town State ZIP Code

Check if:
☐ **Change of address**
☐ **Amended report**

Corporate or Organization No. 1856357

Federal Employer I.D. No. 68-0300448

ANNUAL REGISTRATION RENEWAL FEE SCHEDULE (11 Cal. Code Regs. sections 301-307, 311 and 312)
Make Check Payable to Attorney General's Registry of Charitable Trusts

Gross Annual Revenue	Fee	*Gross Annual Revenue*	Fee	*Gross Annual Revenue*	Fee
Less than $25,000	0	Between $100,001 and $250,000	$50	Between $1,000,001 and $10 million	$150
Between $25,000 and $100,000	$25	Between $250,001 and $1 million	$75	Between $10,000,001 and $50 million	$225
				Greater than $50 million	$300

PART A – ACTIVITIES

For your most recent full accounting period (beginning 1/01/15 **ending** 12/31/15 **) list:**

Gross annual revenue $ 15,872. **Total assets $** 74,869.

PART B – STATEMENTS REGARDING ORGANIZATION DURING THE PERIOD OF THIS REPORT

Note: If you answer 'yes' to any of the questions below, you must attach a separate sheet providing an explanation and details for each 'yes' response. Please review RRF-1 instructions for information required.

		Yes	No
1	During this reporting period, were there any contracts, loans, leases or other financial transactions between the organization and any officer, director or trustee thereof either directly or with an entity in which any such officer, director or trustee had any financial interest?	☐	X
2	During this reporting period, was there any theft, embezzlement, diversion or misuse of the organization's charitable property or funds?	☐	X
3	During this reporting period, did non-program expenditures exceed 50% of gross revenues?	☐	X
4	During this reporting period, were any organization funds used to pay any penalty, fine or judgment? If you filed a Form 4720 with the Internal Revenue Service, attach a copy.	☐	X
5	During this reporting period, were the services of a commercial fundraiser or fundraising counsel for charitable purposes used? If 'yes,' provide an attachment listing the name, address, and telephone number of the service provider.	☐	X
6	During this reporting period, did the organization receive any governmental funding? If so, provide an attachment listing the name of the agency, mailing address, contact person, and telephone number.	☐	X
7	During this reporting period, did the organization hold a raffle for charitable purposes? If 'yes,' provide an attachment indicating the number of raffles and the date(s) they occurred.	☐	X
8	Does the organization conduct a vehicle donation program? If 'yes,' provide an attachment indicating whether the program is operated by the charity or whether the organization contracts with a commercial fundraiser for charitable purposes.	☐	X
9	Did your organization have prepared an audited financial statement in accordance with generally accepted accounting principles for this reporting period?	☐	X

Organization's area code and telephone number 916-440-1368

Organization's e-mail address BWIKHAMMER@SHRA.ORG

I declare under penalty of perjury that I have examined this report, including accompanying documents, and to the best of my knowledge and belief, it is true, correct and complete.

	JOHN GRIFFIN	TREASURER	
Signature of authorized officer	Printed Name	Title	Date