

# **Community Development Commission of the City of National City**

National City, California

Morgan Towers Enterprise Fund  
HUD Project No. 129-38013-PB-WAH-L8

**Financial Statements (Regulatory Basis) with  
Supplementary Information  
And Independent Auditors' Report**

**Single Audit  
And Independent Auditors' Reports**

*For the Year Ended June 30, 2015*



**Community Development Commission of the City of National City**  
**Morgan Towers Enterprise Fund**  
**HUD Project No. 129-38013-PB-WAH-L8**

**Financial Statements (Regulatory Basis) and Supplementary Information**  
**Single Audit Report**

**For the Year Ended June 30, 2015**

**Table of Contents**

---

	<u>Page</u>
<b><u>FINANCIAL SECTION</u></b>	
<b>Independent Auditors' Report .....</b>	<b>1</b>
<b>Financial Statements:</b>	
Statement of Net Assets – Regulatory Basis .....	6
Statement of Profit and Loss and Changes in Net Assets – Regulatory Basis .....	8
Statement of Cash Flows – Regulatory Basis .....	10
Notes to Financial Statements – Regulatory Basis .....	11
<b>Supplementary Information:</b>	
Schedule of Reserve for Replacements .....	16
Schedule of Residual Receipts .....	16
Schedule of Changes in Capital Assets .....	17
Computation of Surplus Cash, Distributions and Residual Receipts .....	18
<b>Single Audit Report:</b>	
<b>Report on Internal Control over Financial Reporting and on Compliance and</b>	
<b>Other Matters Based on an Audit of Financial Statements</b>	
<b>Performed in Accordance with <i>Government Auditing Standards</i> .....</b>	
<b>21</b>	
<b>Report on Compliance for Each Major Program and on</b>	
<b>Internal Control over Compliance Required by OMB Circular A-133 .....</b>	
<b>23</b>	
Schedule of Expenditures of Federal Awards .....	25
Notes to the Schedule of Expenditures of Federal Awards .....	26
Schedule of Findings and Questioned Costs .....	27
Certification of Officer .....	30
Management Agent's Certification .....	31

*This page intentionally left blank.*



6265 Greenwich Drive  
Suite 220  
San Diego, California 92122

**Phone:** (858) 242-5100  
**Fax:** (858) 242-5150  
[www.pm-llp.com](http://www.pm-llp.com)

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the Community Development  
Commission of the City of National City  
City of National City, California

### **Report on Financial Statements**

We have audited the statement of net assets - regulatory basis of the Morgan Towers Enterprise Fund, HUD Project No. 129-38013-PB-WAH-L8, of the Community Development Commission of the City of National City ("Commission") as of June 30, 2015, and the related statements of profit and loss and changes in net assets - regulatory basis, and cash flows - regulatory basis for the year then ended, and the related notes to the financial statements - regulatory basis.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting practices prescribed or permitted by U.S. Department of Housing and Urban Department. Management is also responsible for 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***Opinion***

In our opinion, the financial statements – regulatory basis referred to above present fairly, in all material respects, the respective financial position of the Morgan Towers Enterprise Fund, HUD Project No. 129-38013-PB-WAH-L8 of the Commission, as of June 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with the financial reporting practices prescribed or permitted by U.S. Department of Housing and Urban Development as described in Note 1.

***Basis of Accounting***

We draw attention to Note 2 of the financial statements – regulatory basis, which describes the basis of accounting. The financial statements are prepared by the Commission on the basis of the financial reporting provisions of the U.S. Department of Housing and Urban Development, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the U.S. Department of Housing and Urban Development. Our opinion is not modified with respect to this matter.

***Other Matters***

***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements – regulatory basis as a whole.

The accompanying schedules of reserve for replacements, residual receipts, and changes in fixed assets, and the computation of surplus cash, distribution and residual receipts are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such 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 to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of reserve for replacements, residual receipts, and changes in fixed assets, and the computation of surplus cash, distribution and residual receipts are fairly stated, in all material respects, in relation to the financial statements – regulatory basis as a whole.

In addition, the accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements – regulatory basis. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements – regulatory basis. The information has been subjected to the auditing procedures applied in the audit of the financial statements – regulatory basis 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 to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements – regulatory basis as a whole.

To the Board of Directors of the Community Development  
Commission of the City of National City  
City of National City, California  
Page 3

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2015 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Commission's internal control over financial reporting and compliance.

**Restriction of Use**

Our report is intended solely for the information and use of the Board of Directors and management of the Community Development Commission of the City of National City and the U.S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Paul J. McGeady LLP". The signature is written in a cursive, slightly slanted style.

San Diego, California  
November 9, 2015

*This page intentionally left blank.*



**FINANCIAL STATEMENTS**

*(Regulatory Basis)*

**Community Development Commission of the City of National City  
Morgan Towers Enterprise Fund**

**Statement of Net Assets - Regulatory Basis  
June 30, 2015**

ASSETS		
Current assets:		
1110	Petty cash	\$ 175
1120	Cash - operations	97,268
1130	Tenant accounts receivable	2,454
	Total current assets	99,897
Deposits held in trust:		
1191	Tenant security deposits	44,695
Prepaid expenses		
1240	Prepaid insurance	39,206
1250	Prepaid workers' compensation insurance	2,534
1260	Prepaid mortgage insurance	1,158
1290	Prepaid other	1,019
	Total prepaid expenses	43,917
Restricted deposits and funded reserves:		
1311	MIP impounds	5,790
1312	Insurance impounds	15,042
1321	Reserve for replacements - Berkadia Mortgage	352,593
1341	Residual receipts reserve - Berkadia Mortgage	300,601
	Total restricted deposits and funded reserves	674,026
Capital assets:		
1410	Land	212,568
1420	Building	5,488,048
1430	Building - fixed	1,725,852
1440	Building - portable	147,960
	Total capital assets	7,574,428
Less:	Accumulated depreciation	(5,717,342)
	Net capital assets	1,857,086
	<b>Total assets</b>	<b>2,719,621</b>

**Community Development Commission of the City of National City  
Morgan Towers Enterprise Fund**

**Statement of Net Assets - Regulatory Basis (Continued)  
June 30, 2015**

**LIABILITIES**

Current liabilities:			
2110	Accounts payable	\$	24,697
2120	Accrued payroll and payroll taxes		20,464
2123	Accrued management fee		6,960
2130	Accrued mortgage interest payable		7,102
2170	Mortgage payable - current portion		<u>283,170</u>
	Total current liabilities		<u>342,393</u>
Deposits liabilities:			
2191	Tenant security deposits		<u>44,695</u>
Long-term liabilities:			
2320	Mortgage payable		1,311,137
Less:	Current portion		<u>(283,170)</u>
	Total long-term liabilities		<u>1,027,967</u>
	<b>Total liabilities</b>		<u>1,415,055</u>

**NET ASSETS**

Net assets:			
3210	Net assets		<u>1,304,566</u>
	<b>Total net assets</b>		<u><u>\$ 1,304,566</u></u>

**Community Development Commission of the City of National City  
Morgan Towers Enterprise Fund**

**Statement of Profit and Loss and Changes in Net Assets - Regulatory Basis  
For the Year Ended June 30, 2015**

Rental revenue:			
Rent revenue:			
5120	Rent revenue	\$	525,195
5121	Tenant assistance payments		737,821
	Total rent revenue		1,263,016
Vacancies:			
5220	Apartments		(2,781)
Concessions:			
5250	Rental Concessions		(54)
	Total rental revenue		1,260,181
Financial revenue:			
5410	Interest income - project operations		13
5430	Interest income - residual receipts		194
5440	Interest income - reserve for replacement		530
	Total financial revenue		737
Other revenue:			
5910	Laundry revenue		7,405
5920	Tenant charges		195
	Total other revenue		7,600
	Total revenue		1,268,518
Expenses:			
Administrative expenses:			
6203	Conventions & Meetings		2,715
6210	Advertising		357
6250	Other rent expenses		200
6310	Office salaries		9,402
6311	Office expenses		12,584
6320	Management fee		81,929
6330	Manager salaries		64,066
6340	Legal Expense		66
6350	Audit expense		7,000
6351	Bookkeeping/accounting services		10,338
6390	Service coordinator expense		14,259
	Total administrative expenses		202,916

**Community Development Commission of the City of National City  
Morgan Towers Enterprise Fund**

**Statement of Profit and Loss and Changes in Net Assets - Regulatory Basis (Continued)  
For the Year Ended June 30, 2015**

Utilities expense:			
6450	Electric		\$ 56,457
6451	Water		52,715
6452	Gas		25,290
6453	Sewer		45,600
	Total utilities expense		180,062
Operating and maintenance expenses:			
6510	Janitorial/maintenance payroll		123,158
6515	Supplies		40,887
6520	Contracts		134,806
6525	Garbage and trash removal		13,343
6530	Security contracts/payroll		32,571
6535	Nutrition center expense		10,424
6546	Heating/cooling repairs		19,932
	Total operating and maintenance expenses		375,121
Taxes and insurance:			
6711	Payroll taxes		15,610
6720	Property and liability insurance		41,649
6722	Workers' compensation		11,487
6723	Health insurance and employee benefits		35,981
6790	Miscellaneous licenses		1,794
	Total taxes and insurance		106,521
Financial expenses:			
6820	Interest on mortgage payable		93,223
6850	Mortgage insurance premium		7,165
	Total financial expenses		100,388
	Total operating expenses before depreciation		965,008
	Operating profit (loss) before depreciation		303,510
6600	Depreciation		113,538
	Operating profit		189,972
	Net assets at beginning of year		1,114,594
	Net assets at end of year		\$ 1,304,566

**Community Development Commission of the City of National City  
Morgan Towers Enterprise Fund**

**Statement of Cash Flows - Regulatory Basis  
For the Year Ended June 30, 2015**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Rental receipts	\$ 520,502
Interest receipts	737
Tenant assistance payments	737,821
Laundry receipts and miscellaneous	7,600
Cash paid for operating expenses	<u>(966,075)</u>
<b>Net cash provided by operating activities</b>	<u>300,585</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Acquisition of capital assets	(75,535)
Deposits to reserve for replacement of dep assets	(37,524)
Withdrawal from reserve for replacement of dep assets	<u>95,711</u>
<b>Net cash (used in) investing activities</b>	<u>(17,348)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Mortgage principal payments	<u>(265,396)</u>
<b>Net cash (used in) financing activities</b>	<u>(265,396)</u>
<b>Net (decrease) in cash and cash equivalents</b>	17,841

**CASH AND CASH EQUIVALENTS:**

Beginning of year	<u>79,602</u>
End of year	<u>\$ 97,443</u>

**RECONCILIATION OF OPERATING PROFIT TO NET  
CASH PROVIDED BY OPERATING ACTIVITIES:**

Operating profit	\$ 189,972
Adjustments to reconcile operating profit to net cash provided by operating activities:	
Depreciation and amortization	113,538
Tenant account receivable	(1,858)
Prepaid expenses	(388)
Deposits held in trust: Tenant security deposits	(548)
Accounts payable	(16,562)
Accrued payroll and payroll taxes	16,874
Accrued management fee	447
Accrued mortgage interest	(1,438)
Deposit liabilities: Tenant security deposits	<u>548</u>
Total adjustments	<u>110,613</u>
<b>Net cash provided by operating activities</b>	<u>\$ 300,585</u>

**Community Development Commission of the City of National City**  
**Morgan Towers Enterprise Fund**  
**HUD Project No. 129-38013-PB-WAH-L8**  
**Notes to Financial Statements – Regulatory Basis**  
**For the Year Ended June 30, 2015**

---

**Note 1 – Description of Project**

Morgan Towers is an apartment project owned and operated by the Community Development Commission of the City of National City (the “Commission”) for the purpose of providing housing for low-income elderly and disabled persons. The primary purpose of the Commission is to eliminate blighted areas by encouraging the development of residential, commercial, industrial, recreational and public facilities. The Commission is subject to the oversight responsibility of the City Council of the City of National City (the “City”), and accordingly, is a component unit of the City, although it is a separate legal entity.

**Note 2 – Summary of Significant Accounting Policies**

***Basis of Accounting***

The financial statements are prepared in conformity with the financial reporting practices prescribed or permitted by the U.S. Department of Housing and Urban Development (“HUD”), which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of HUD. Revenues are recognized when earned and expenses are recognized as they are incurred.

The accompanying financial statements present only the Morgan Towers Enterprise Fund, HUD Project No. 129-38013-PB-WAH-L8 and are not intended to present the financial position of the Commission or the City of National City, and the results of its operations and the cash flows of its governmental or proprietary fund types.

***Cash and Cash Equivalents***

Cash and cash equivalents include all highly liquid investments with original maturities of 90 days or less and are carried at cost, which approximates fair value.

***Assets Held in Trust/Reserve***

In accordance with HUD requirements, Morgan Towers maintains the following restricted cash accounts:

**Reserve for replacements** of \$352,593 represents a monthly deposit of \$3,127, less current use for replacement, plus income earned thereon. The balance of this reserve will be used for the future replacement of property with HUD’s approval.

**Residual receipts reserve** of \$300,601 is an accumulation of surplus cash as calculated by HUD’s Computation of Surplus Cash, Distributions and Residual Receipts, which can only be expended with HUD’s approval.

**Reserve for tenant security deposits** of \$44,695 represents amounts collected from tenants which are generally returned to the tenants when they vacate the property. A corresponding liability of \$44,695 is included in the accompanying balance sheet.

**Reserve for MIP and insurance impounds** of \$5,790 and \$15,042, respectively, totaling \$20,832 represent amounts held for the future payment of property and mortgage insurance.

**Community Development Commission of the City of National City**  
**Morgan Towers Enterprise Fund**  
**HUD Project No. 129-38013-PB-WAH-L8**

**Notes to Financial Statements – Regulatory Basis (Continued)**  
**For the Year Ended June 30, 2015**

---

**Note 2 – Summary of Significant Accounting Policies (Continued)**

***Concentration of Credit Risk***

Demand deposits were fully insured and/or collateralized with securities held by the pledging financial institutions in the Commission's name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the Commission's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the Commission's name.

The fair value of pledged securities must equal at least 110% of the Commission's cash deposits. California law also allows institutions to secure the Commission's deposits by pledging first trust deed mortgage notes having a value of 150% of the Commission's total cash deposits. The Commission may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The Commission, however, has not waived the collateralization requirements.

***Receivables***

Tenant accounts receivable consist of amounts owed by individuals for rent rendered in the regular course of business operations. Receivables are shown net of allowances for doubtful accounts, if any.

***Prepaid Expenses***

Payments made to vendors for services that will benefit periods beyond the fiscal year ended are recorded as prepaid expenses.

***Capital Assets***

Capital assets are valued at historical cost, or estimated historical cost, if actual historical cost was not available. Donated capital assets are valued at their estimated fair market value on the date donated. The Commission policy has set the capitalization threshold for reporting capital assets at \$10,000, all of which must have an estimated useful life in excess of one year. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Building	50 years
Improvements and equipment	5 to 41 years

***Rental Income***

Rental revenues are subsidized with Federal government funds under a Section 8 contract with HUD.

***Income Taxes***

Neither the Project nor its government owner is subject to income taxes.



**Community Development Commission of the City of National City**  
**Morgan Towers Enterprise Fund**  
**HUD Project No. 129-38013-PB-WAH-L8**

**Notes to Financial Statements – Regulatory Basis (Continued)**  
**For the Year Ended June 30, 2015**

**Note 2 – Summary of Significant Accounting Policies (Continued)**

*Distributions*

The Project’s regulatory agreement with HUD stipulates, among other things, that the Project will not make distributions of assets or income to any of its officers or directors.

*Use of Estimates*

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of 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.

**Note 3 – Cash and Investments**

At June 30, 2015, cash and investments consisted of the following:

<b>Cash and Cash Equivalents:</b>	
Petty Cash	\$ 175
Union Bank Checking Account (general checking)	97,268
<b>Total cash and cash equivalents</b>	<b>97,443</b>
<b>Assets Held in Trust/Reserve:</b>	
First Private Bank & Trust (tenant deposits)	44,695
Berkadia Commercial Mortgage (Tax and insurance impounds)	20,832
Berkadia Commercial Mortgage (Reserve for replacement)	352,593
Berkadia Commercial Mortgage (Residual receipts reserve)	300,601
<b>Total assets held in trust/reserve</b>	<b>718,721</b>
<b>Total</b>	<b>\$ 816,164</b>

**Note 4 – Capital Assets**

At June 30, 2015, capital assets consisted of the following:

Land	\$ 212,568
Building and improvements	7,213,900
Furniture and equipment	147,960
	7,574,428
Accumulated depreciation	(5,717,342)
<b>Total</b>	<b>\$ 1,857,086</b>

Depreciation expense for the year end June 30, 2015 was \$113,538.

**Community Development Commission of the City of National City**  
**Morgan Towers Enterprise Fund**  
**HUD Project No. 129-38013-PB-WAH-L8**

**Notes to Financial Statements (Continued)**  
**For the Year Ended June 30, 2015**

**Note 5 – Mortgage Payable**

A mortgage loan secured by the property is payable to Berkadia Mortgage. The original note was dated March 1, 1978 in the amount of \$5,125,000. Payments of principal and interest at 6.5% aggregating \$30,005 are made monthly with the final payment due August 1, 2019. The unpaid principal portion of the note at June 30, 2015 was \$1,311,137. The principal portion of long-term debt maturities is as follows:

Year Ended	Principal
2016	\$ 283,170
2017	302,135
2018	322,368
2019	343,958
2020	59,506
	1,311,137
Less current portion	(283,170)
Long-term portion	\$ 1,027,967

**Note 6 – Net Assets**

Net assets are restricted and accounted for in accordance with criteria prescribed by HUD.

**Note 7 – Management Fee**

The Morgan Tower Enterprise Fund paid a management fee equal to 6.25% through August 31, 2014 and 6.5% thereafter of rental and laundry income to Falkenberg/Gilliam & Associates, Inc.

**Note 8 – Contingent Liabilities**

The Community Development Commission of the City of National City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government’s counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

**Note 9 – Concentrations**

The Morgan Tower Enterprise Fund received approximately 58% of its revenues for the year ended June 30, 2015 through subsidies from the U.S. Department of Housing and Urban Development. Without this source of revenues, Morgan Tower Enterprise Fund would have difficulty operating its programs.

**SUPPLEMENTARY INFORMATION**

**Community Development Commission of the City of National City**  
**Morgan Towers Enterprise Fund**  
**HUD Project No. 129-38013-PB-WAH-L8**  
**Supplementary Information Required by HUD**  
**For the Year Ended June 30, 2015**

---

**Note 1 – Reserve for Replacement and Residual Receipts Account**

In accordance with the provisions of the regulatory agreement, restricted cash is held to be used for replacement of property, with the approval of HUD, as follows:

	Reserve for Replacement	Residual Receipts
Balance, July 1, 2014	\$ 422,301	\$ 300,207
Monthly deposits (\$3,127 x 12)	37,524	-
Withdrawals	(107,762)	-
Interest earned	530	394
	\$ 352,593	\$ 300,601
Balance, June 30, 2015 confirmed by depository	\$ 352,593	\$ 300,601

The reserve for replacement and residual receipts accounts are at Berkadia Commercial Mortgage, and are comprised of cash held at Escrow Bank as follows:

	Reserve for Replacement	Residual Receipts
Cash	\$ 352,593	\$ 300,601

**Note 2 – Accounts Payable (Other Than Trade Creditors)**

There are no accounts payable other than trade creditors.

**Note 3 – Compensation of Officers**

No compensation was paid to any officer of Morgan Towers.

**Note 4 – Identity-in-Interest Firms**

None.

**Note 5 - Due to Other Funds**

None.

**Community Development Commission of the City of National City**  
**Morgan Towers Enterprise Fund**  
**HUD Project No. 129-38013-PB-WAH-L8**  
**Supplementary Information Required by HUD (Continued)**  
**For the Year Ended June 30, 2015**

**Note 6 – Tenant Security Deposits**

Tenant security deposits are held at First Private Bank & Trust in an account insured by the Federal government that is in the name of the Project. At June 30, 2015, the account consisted of \$44,695 in cash.

**Note 7 – Changes in Capital Assets Account**

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
<b>Governmental Activities:</b>				
Capital assets, not being depreciated				
Land	\$ 212,568	\$ -	\$ -	\$ 212,568
Total capital assets, not being depreciated	212,568	-	-	212,568
Capital assets, being depreciated				
Building and improvements	7,213,900	-	-	7,213,900
Furniture and equipment	147,960	-	-	147,960
Total capital assets, being depreciated	7,361,860	-	-	7,361,860
Accumulated depreciation:				
Building and improvements	(5,455,844)	(113,538)	-	(5,569,382)
Furniture and equipment	(147,960)	-	-	(147,960)
Total accumulated depreciation	(5,603,804)	(113,538)	-	(5,717,342)
Total capital assets, being depreciated, net	1,758,056	(113,538)	-	1,644,518
Total capital assets, net	\$ 1,970,624	\$ (113,538)	\$ -	\$ 1,857,086

**Community Development Commission of the City of National City**  
**Morgan Towers Enterprise Fund**  
**HUD Project No. 129-38013-PB-WAH-L8**  
**Supplementary Information Required by HUD (Continued)**  
**For the Year Ended June 30, 2015**

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT HOUSING - FEDERAL HOUSING COMMISSIONER OFFICE OF MULTIFAMILY HOUSING MANAGEMENT AND OCCUPANCY <b>COMPUTATION OF SURPLUS CASH, DISTRIBUTIONS AND RESIDUAL RECEIPTS</b>			
Project Name		Fiscal Period Ended	Project Number
<b>PART A - COMPUTE SURPLUS CASH</b>			
<b>CASH</b>	1. Cash ( <i>Accounts 1120, 1170, 1191</i> )	\$ 142,138.00	
	2. Tenant subsidy vouchers due for period covered by financial statement	\$ -	
	3. Other ( <i>Describe</i> )	\$ -	
	<i>(a) Total Cash (Add Lines 1, 2, and 3)</i>		
<b>CURRENT OBLIGATIONS</b>	4. Accrued mortgage interest payable	\$ 7,102.00	
	5. Delinquent mortgage principal payments	\$ -	
	6. Delinquent deposits to reserve for replacements	\$ -	
	7. Accounts payable ( <i>due within 30 days</i> )	\$ 24,697.00	
	8. Loans and notes payable... ( <i>due within 30 days</i> )	\$ -	
	9. Deficient Tax Insurance or MIP Escrow Deposits	\$ -	
	10. Accrued expenses ( <i>not escrowed</i> )	\$ 27,424.00	
	11. Prepaid Rents ( <i>Account 2210</i> )	\$ -	
	12. Tenant security deposits liability ( <i>Account 2191</i> )	\$ 44,695.00	
	13. Other ( <i>Describe</i> )	\$ -	
<i>(b) Less Total Current Obligations (Add Lines 4 through 13)</i>		\$ 103,918.00	
<i>(c) Surplus Cash (Deficiency) (Line (a) minus Line (b))</i>		\$ 38,220.00	
<b>PART B - COMPUTE DISTRIBUTIONS TO OWNERS AND REQUIRED DEPOSIT TO RESIDUAL RECEIPTS</b>			
1. Surplus Cash			
<b>LIMITED DIVIDEND PROJECTS</b>	2a. Annual Distribution Earned During Fiscal Period Covered by the Statement		
	2b. Distributions Accrued and Unpaid as of the End of the Prior Fiscal Period		
	2c. Distributions Paid During Fiscal Period Covered by Statement		
	3. Amount to be Carried on Balance Sheet as Distribution Earned but Unpaid ( <i>Line 2a plus 2b minus 2c</i> )	\$ -	
4. Amount Available for Distribution During Next Fiscal Period			\$ -
<b>MARK TO MARKET</b>			
	5. Incentive Performance Fee Payable		
	6. Percentage Surplus Cash Split		
	7. Surplus Cash Available for Second Mortgage Payments	\$ -	
	8. Surplus Cash Available for Distribution	\$ -	
	9. Deposit Due Residual Receipts <i>(Must be deposited with Mortgagee within 60 days after Fiscal Period ends)</i>	-	
<b>PREPARED BY</b>		<b>REVIEWED BY</b>	
LOAN TECHNICIAN		LOAN SERVICER	
DATE		DATE	

HUD-93486(12-80)

**SINGLE AUDIT REPORTS**

*This page intentionally left blank.*





6265 Greenwich Drive  
Suite 220  
San Diego, California 92122

**Phone:** (858) 242-5100  
**Fax:** (858) 242-5150  
www.pm-llp.com

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENTAL AUDITING STANDARDS***

**Independent Auditors' Report**

To the Board of Directors of the Community Development  
Commission of the City of National City  
City of National City, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements - regulatory basis of the Morgan Towers Enterprise Fund, HUD Project No. 129-38013-PB-WAH-L8, of the Community Development Commission of the City of National City ("Commission"), as of and for the year ended June 30, 2015, and the related notes to the financial statements - regulatory basis and have issued our report thereon dated November 9, 2015.

**Internal Control over Financial Reporting**

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

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

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

To the Board of Directors of the Community Development  
Commission of the City of National City  
City of National City, California  
Page 2

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Commission's financial statements – regulatory basis 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 those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

### **Purpose of this Report**

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

A handwritten signature in black ink that reads "Paul J. McGeady LLP". The signature is written in a cursive, slightly slanted style.

San Diego, California  
November 9, 2015



6265 Greenwich Drive  
Suite 220  
San Diego, California 92122

**Phone:** (858) 242-5100  
**Fax:** (858) 242-5150  
www.pm-llp.com

## **REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

### **Independent Auditors' Report**

To the Board of Directors of the Community Development  
Commission of the City of National City  
City of National City, California

#### **Report on Compliance for Each Major Federal Program**

We have audited the Morgan Towers Enterprise Fund of the Community Development Commission of the City of National City (the "Commission")'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Commission's major federal programs for the year ended June 30, 2015. The Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Commission's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Commission's compliance.

#### ***Opinion on Each Major Federal Program***

In our opinion, the Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

**Report on Internal Control Over Compliance**

Management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Commission’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission’s internal control over compliance.

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

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

**Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Handwritten signature in black ink that reads "Paul J. McGeady LLP". The signature is written in a cursive style.

San Diego, California  
November 9, 2015

**Community Development Commission of the City of National City**  
**Morgan Towers Enterprise Fund**  
**HUD Project No. 129-38013-PB-WAH-L8**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2015**

Program Title	CFDA Number	Grant Award Number	Federal Expenditures
<b>U.S. Department of Housing and Urban Development</b>			
<i>Direct Program</i>			
Section 8 Housing Assistance Payments Program	14.871	CA 60006011	\$ 737,821
<b>Housing Voucher Cluster Subtotal</b>			<u>737,821</u>
Mortgage Insurance - Rental Housing for the Elderly	14.138	129-38013-PB-WAH-L8	<u>1,311,137</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u>2,048,958</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 2,048,958</u></u>

**Community Development Commission of the City of National City  
Morgan Towers Enterprise Fund  
HUD Project No. 129-38013-PB-WAH-L8**

**Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2015**

**Note 1 – Reporting Entity**

The financial reporting entity consists of Morgan Towers is an apartment project owned and operated by the Community Development Commission of the City of National City (the “Commission”) for the purpose of providing housing for low-income elderly and disabled persons. The Commission is subject to the oversight responsibility of the City Council of the City of National City (the “City”), and accordingly, is a component unit of the City, although it is a separate legal entity.

**Note 2 – Summary of Significant Accounting Policies**

*Basis of Accounting*

The expenses included in the accompanying schedule were reported on the accrual basis of accounting. The accompanying Schedule of Expenditures of Federal Awards (Schedule) is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

*Schedule of Expenditures of Federal Awards*

The accompanying Schedule of Expenditures of Federal Awards (Schedule) only the expenditures incurred by the Morgan Towers Enterprise Fund that are subsidized under the federal program of federal agency providing financial assistance. For purposes of this schedule, financial assistance includes federal financial assistance received directly from a federal agency. Only the portion of program expenditures reimbursable with such federal funds are reported in the accompanying schedule.

*Mortgage Payable*

A mortgage loan secured by the property is payable to Berkadia Mortgage. The original note was dated March 1, 1978 in the amount of \$5,125,000. Payments of principal and interest at 6.5% aggregating \$30,005 are made monthly with the final payment due August 1, 2019. The unpaid principal portion of the note at June 30, 2015 was \$1,311,137. The principal portion of long-term debt maturities is as follows:

Year Ended	Principal
2016	\$ 283,170
2017	302,135
2018	322,368
2019	343,958
2020	59,506
	1,311,137
Less current portion	(283,170)
Long-term portion	\$ 1,027,967

The note is insured by HUD and is secured by substantially all property and equipment included in the accompanying balance sheet.

**Community Development Commission of the City of National City**  
**Morgan Towers Enterprise Fund**  
**HUD Project No. 129-38013-PB-WAH-L8**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2015**

---

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Types of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None Reported
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None Reported
Type of auditor’s report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in Accordance with section 510(a) of OMB Circular A-133	No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster	Expenditures
14.138	Mortgage Insurance - Rental Housing for the Elderly	\$ 1,311,137
	<b>Total Expenditures of All Major Federal Programs</b>	<b>\$ 1,311,137</b>
	<b>Total Expenditures of Federal Awards</b>	<b>\$ 2,048,958</b>
	<b>Percentage of Total Expenditures of Federal Awards</b>	<b>63.99%</b>

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee under section 530 of OMB Circular A-133?	Yes

**Community Development Commission of the City of National City**  
**Morgan Towers Enterprise Fund**  
**HUD Project No. 129-38013-PB-WAH-L8**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2015**

---

**Section II – Financial Statement Findings**

**A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit**

No financial statement findings were noted for the year ended June 30, 2015.

**B. Prior Year Findings and Questioned Costs – Major Federal Award Program Audit**

**Finding: 2015-01, Residual Receipts**

**Criteria:**

HUD Handbook 4350.1, Chapter 3 – HUD Multifamily Housing Programs; “\*Non-profit owners and owners of limited distribution projects, Section 202 projects, and Section 811 projects\* shall establish a residual receipts account and make deposits into the account in accordance with HUD requirements \*within 90 days after the close of the fiscal year.\*”

**Condition:**

During our review of the Commission’s residual receipts account, it was noted that the Commission did not deposit surplus cash into the residual receipts account within 90 days after the close of the fiscal year. The cash surplus deposit was not made until November 26, 2013, which is 56 days past the due date per HUD guidelines.

**Current Status:**

Corrective action has been taken.



**Community Development Commission of the City of National City**  
**Morgan Towers Enterprise Fund**  
**HUD Project No. 129-38013-PB-WAH-L8**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2015**

---

**Section III – Federal Awards Findings**

**A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit**

No findings or questioned costs were noted on the City’s major programs for the year ended June 30, 2015.

**B. Prior Year Findings and Questioned Costs – Major Federal Award Program Audit**

No findings or questioned costs were noted on the City’s major programs for the year ended June 30, 2014.

**Community Development Commission of the City of National City  
Morgan Towers Enterprise Fund  
HUD Project No. 129-38013-PB-WAH-L8**

**Certification of Officer  
For the Year Ended June 30, 2015**

---

We hereby certify that we have examined the accompanying financial statements and supplementary information of the Morgan Towers Enterprise Fund and, to the best of my knowledge and belief, the same is complete and accurate.

Date: November 9, 2015

Community Development Commission –  
Housing Authority of the City of National  
City

By:  \_\_\_\_\_  
Executive Director

**Community Development Commission of the City of National City  
Morgan Towers Enterprise Fund  
HUD Project No. 129-38013-PB-WAH-L8**

**Management Agent's Certification  
For the Year Ended June 30, 2015**

---

We hereby certify that we have examined the accompanying financial statements and supplementary information of the Morgan Towers Enterprise Fund and, to the best of my knowledge and belief, the same is complete and accurate.

Date: November 9, 2015

Falkenberg/Gilliam & Associates, Inc.

By:  \_\_\_\_\_

*This page intentionally left blank*