

# **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 with Supplementary Information And Independent Auditors' Report**

*For the Year Ended June 30, 2018*





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

**Financial Statements**  
**and Supplementary Information**  
**For the Year Ended June 30, 2018**

**Table of Contents**

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	<u>Page</u>
<b><u>FINANCIAL SECTION</u></b>	
<b>Independent Auditors' Report</b> .....	1
<b>Financial Statements:</b>	
Statement of Net Position .....	6
Statement of Revenues, Expenses, and Change in Net Position.....	7
Statement of Cash Flows .....	8
Notes to the Financial Statements.....	9
<b>Supplementary Data Required By HUD:</b>	
Net Assets Data.....	16
Profit and Loss Data .....	18
Net Assets Data.....	20
Cash Flows Data .....	21
Schedule of Reserve for Replacements.....	22
Schedule of Residual Receipts.....	23
Computation of Surplus Cash, Distributions and Residual Receipts.....	24
Schedule of Fixed Assets.....	25
<b>Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b> .....	29
<b>Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance</b> .....	31
Schedule of Expenditures of Federal Awards.....	33
Notes to the Schedule of Expenditures of Federal Awards .....	34
Schedule of Findings and Questioned Costs.....	35
Certification of Officer .....	38
Management Agent's Certification.....	39

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## 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 the accompanying financial statements 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 (the "Commission") as of June 30, 2018, and the related notes to the financial statements, which collectively comprise the Commission's 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 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 referred to above present fairly, in all material respects, the respective financial position of the Commission, as of June 30, 2018, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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***Emphasis of a Matter***

As discussed in Note 2, the financial statements of the Commission, are intended to present the financial position, the changes in financial position, and, cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City that is attributable to the transactions of the Commission. They do not purport to, and do not present fairly the financial position of the City of National City, California as of June 30, 2018, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

Management has omitted the Management Discussion and Analysis, that accounting principles generally accepted in the United States of America requires 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.

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental information shown on pages 16 to 25 is presented for purposes of additional analysis as required by the Uniform Financial Reporting Standards issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards shown on page 34, as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. The above described supplementary 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. 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 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 supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2018 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 the Commission's internal control over financial reporting and compliance.

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

**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.

*The Pent Group, LLP*

San Diego, California  
November 15, 2018

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## **FINANCIAL STATEMENTS**

**Community Development Commission of the City of National City**  
**Morgan Towers Enterprise Fund**  
**HUD Project No. 129-38013-PB-WAH-L8**  
**Statement of Net Position**  
**June 30, 2018**

<b>ASSETS</b>	
Current assets:	
Cash and investments	\$ 35,444
Accounts receivable	4,328
Prepaid items	37,252
Total current assets	77,024
Noncurrent assets:	
Restricted deposits:	
Escrow deposits	25,815
Replacement reserve	404,891
Residual receipts reserve	343,093
Tenant security deposits	44,879
Capital assets:	
Non-depreciable assets	212,568
Depreciable assets, net of accumulated depreciation	1,303,904
Total capital assets, net	1,516,472
Total noncurrent assets	2,335,150
<b>Total assets</b>	<b>2,412,174</b>
<b>LIABILITIES AND NET POSITION</b>	
<b>Liabilities:</b>	
Current liabilities:	
Accounts payable and accrued liabilities	92,653
Salaries payable	8,799
Interest payable	2,185
Note payable - due within one year	343,958
Total current liabilities	447,595
Noncurrent liabilities:	
Tenant security deposit liability	44,879
Note payable - due in more than one year	59,506
Total noncurrent liabilities	104,385
<b>Total liabilities</b>	<b>551,980</b>
<b>Net Position:</b>	
Net investment in capital assets	1,113,008
Unrestricted	747,186
<b>Total net position</b>	<b>\$ 1,860,194</b>

See accompanying Notes to the Financial Statements.

**Community Development Commission of the City of National City**  
**Morgan Towers Enterprise Fund**  
**HUD Project No. 129-38013-PB-WAH-L8**  
**Statement of Revenues, Expenses, and Change in Net Position**  
**For the Year Ended June 30, 2018**

**OPERATING REVENUES:**

Rental income	\$ 1,329,610
Other	6,961
<b>Total operating revenues</b>	<b>1,336,571</b>

**OPERATING EXPENSES:**

Operations and administration	514,550
Maintenance	436,191
Depreciation	113,538
<b>Total operating expenses</b>	<b>1,064,279</b>

**OPERATING INCOME**

272,292

**NONOPERATING REVENUES (EXPENSES):**

Interest income	4,361
Interest expense	(39,114)
<b>Total nonoperating revenues (expenses)</b>	<b>(34,753)</b>

**CHANGE IN NET POSITION**

237,539

**NET POSITION:**

Beginning of year	1,622,655
End of year	\$ 1,860,194

**Community Development Commission of the City of National City**  
**Morgan Towers Enterprise Fund**  
**HUD Project No. 129-38013-PB-WAH-L8**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2018**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from customers	\$ 1,325,724
Cash payments to supplier and employees for goods and services	(896,473)
Other operating revenues	6,961
<b>Net cash provided by operating activities</b>	<b>436,212</b>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Mortgage principal payments	(322,368)
<b>Net cash (used in) capital and related financing activities</b>	<b>(322,368)</b>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

Interest expense	(40,861)
<b>Net cash (used in) noncapital financing activities</b>	<b>(40,861)</b>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Net deposits to restricted deposits and funded reserves	(55,364)
Interest income	4,361
<b>Net cash (used in) investing activities</b>	<b>(51,003)</b>

<b>Net change in cash and cash equivalents</b>	21,980
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**CASH AND CASH EQUIVALENTS:**

Beginning of year	13,464
End of year	\$ 35,444

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

Operating income	\$ 272,292
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:	
Depreciation	113,538
Changes in operating assets and liabilities:	
Accounts receivable	(3,886)
Prepaid items	9,028
Tenant security deposit held in trust	(230)
Accounts payable and accrued liabilities	45,330
Tenant security deposit liability	230
Salaries payable	(90)
Total adjustments	163,920
<b>Net cash provided by operating activities</b>	<b>\$ 436,212</b>

See accompanying Notes to the Financial Statements.

**Community Development Commission of the City of National City**  
**Morgan Towers Enterprise Fund**  
**HUD Project No. 129-38013-PB-WAH-L8**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2018**

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**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 of the Commission have been prepared in conformity with accounting principles generally accepted of the United States of America (“US GAAP”) as applied to governmental agencies. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Commission’s accounting policies are described below.

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 \$404,891 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 \$343,093 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 \$44,879 represents amounts collected from tenants which are generally returned to the tenants when they vacate the property. A corresponding liability of \$44,879 is included in the accompanying balance sheet.

**Reserve for MIP and insurance impounds** of \$23,868 and \$1,947, respectively, totaling \$25,815 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 the Financial Statements (Continued)**  
**For the Year Ended June 30, 2018**

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**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.

***Interest Income and Interest Expense***

Per the regulatory basis of accounting prescribed by HUD, the Commission includes interest income and interest expense as cash flows from operating activities which does not comply with the GAAP basis of accounting.

**Community Development Commission of the City of National City**  
**Morgan Towers Enterprise Fund**  
**HUD Project No. 129-38013-PB-WAH-L8**  
**Notes to the Financial Statements (Continued)**  
**For the Year Ended June 30, 2018**

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**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.

***Net Position***

In the financial statements, net position is categorized as follows:

*Net Investment in Capital Assets* – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted* – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

*Unrestricted* – This component of net position is the amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

**Note 3 – Cash and Investments**

At June 30, 2018, cash and investments consisted of the following:

<b>Cash and Cash Equivalents:</b>	
Petty Cash	\$ 175
Union Bank Checking Account (General checking)	35,269
<b>Total cash and cash equivalents</b>	<b>35,444</b>
<b>Assets Held in Trust/Reserve:</b>	
Tenant Security Deposits	44,879
Berkadia Commercial Mortgage (Tax and insurance impounds)	25,815
Berkadia Commercial Mortgage (Reserve for replacement)	404,891
Berkadia Commercial Mortgage (Residual receipts reserve)	343,093
<b>Total assets held in trust/reserve</b>	<b>773,799</b>
<b>Total</b>	<b>\$ 809,243</b>

**Community Development Commission of the City of National City**  
**Morgan Towers Enterprise Fund**  
**HUD Project No. 129-38013-PB-WAH-L8**  
**Notes to the Financial Statements (Continued)**  
**For the Year Ended June 30, 2018**

**Note 4 – Capital Assets**

A summary of changes in capital assets for the year ended June 30, 2018 is as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
<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	(5,796,458)	(113,538)	-	(5,909,996)
Furniture and equipment	(147,960)	-	-	(147,960)
Total accumulated depreciation	(5,944,418)	(113,538)	-	(6,057,956)
Total capital assets, being depreciated, net	1,417,442	(113,538)	-	1,303,904
Total capital assets, net	\$ 1,630,010	\$ (113,538)	\$ -	\$ 1,516,472

Depreciation expense for the year end June 30, 2018 was \$113,538.

**Note 5 – Mortgage Payable**

Balance July 1, 2017	Debt Issued	Debt Retired	Balance June 30, 2018	Classification	
				Due within One Year	Due in More Than One Year
\$ 725,832	\$ -	\$ (322,368)	\$ 403,464	\$ 343,958	\$ 59,506
\$ 725,832	\$ -	\$ (322,368)	\$ 403,464	\$ 343,958	\$ 59,506

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, 2018 was \$403,464. The annual debt service requirements for the mortgage payable outstanding at June 30, 2018 are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 343,958	\$ 16,097	\$ 360,055
2020	59,506	484	59,990
<b>Total</b>	<b>\$ 403,464</b>	<b>\$ 16,581</b>	<b>\$ 420,045</b>



**Community Development Commission of the City of National City**  
**Morgan Towers Enterprise Fund**  
**HUD Project No. 129-38013-PB-WAH-L8**  
**Notes to the Financial Statements (Continued)**  
**For the Year Ended June 30, 2018**

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**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, 2018, the account consisted of \$44,879 in cash.

**Note 7 – Net Position**

Net position is restricted per the nature of the HUD Section 8 New Construction and Substantial Rehabilitation Program and is accounted for in accordance with criteria prescribed by HUD.

**Note 8 – Management Fee**

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

**Note 9 – 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 10 – Concentrations**

The Morgan Tower Enterprise Fund received approximately 60% of its revenues for the year ended June 30, 2018 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.

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**SUPPLEMENTARY DATA  
REQUIRED BY HUD**

**Community Development Commission of the City of National City**  
**Morgan Towers Enterprise Fund**  
**HUD Project No. 129-38013-PB-WAH-L8**  
**Net Assets Data**  
**June 30, 2018**

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ASSETS

Current assets:

1120	Cash - operations	\$	35,444
1135	Accounts receivable - HUD		4,328
1260	Prepays		37,252
1100T	Total current assets		77,024

Deposits held in trust:

1191	Tenant security deposits		44,879
			44,879

Restricted deposits and funded reserves:

1310	Escrow deposits		25,815
1320	Reserve for replacements - Berkadia Mortgage		404,891
1340	Residual receipts reserve - Berkadia Mortgage		343,093
1300T	Total restricted deposits and funded reserves		773,799

Fixed assets:

1410	Land		212,568
1420	Building		7,213,900
1440	Building equipment		147,960
1400T	Total fixed assets		7,574,428
1495	Accumulated depreciation		(6,057,956)
1400N	Total fixed assets		1,516,472
1000T	<b>Total assets</b>		2,412,174

**Community Development Commission of the City of National City**  
**Morgan Towers Enterprise Fund**  
**HUD Project No. 129-38013-PB-WAH-L8**  
**Net Assets Data (Continued)**  
**June 30, 2018**

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**LIABILITIES AND NET ASSETS**

Current liabilities:

2110	Accounts payable - operations	\$	84,774
2120	Accrued wages payable		8,799
2123	Accrued management fee payable		7,246
2130	Accrued interest payable - first mortgage		2,185
2170	Mortgage payable - first mortgage (short term)		343,958
2210	Prepaid revenue		633
2122T	Total current liabilities		447,595

Deposits liabilities:

2191	Tenant deposits held in trust		44,879
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Long-term liabilities:

2320	Mortgage payable - first mortgage		59,506
2300T	Total long-term liabilities		59,506
2000T	<b>Total liabilities</b>		551,980

Net assets:

3131	Unrestricted net assets		1,860,194
3130	<b>Total net assets</b>		1,860,194
2033T	<b>Total liabilities and net assets</b>	\$	2,412,174

**Community Development Commission of the City of National City**  
**Morgan Towers Enterprise Fund**  
**HUD Project No. 129-38013-PB-WAH-L8**  
**Profit and Loss Data**  
**For the Year Ended June 30, 2018**

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Revenue:

Rent revenue:

5120	Rent revenue	\$ 531,255
5121	Tenant assistance payments	802,456
5100T	Total rent revenue	<u>1,333,711</u>

Vacancies:

5220	Apartments	(2,960)
5250	Rental Concessions	(1,141)
5200T	Total vacancies	<u>(4,101)</u>
5152N	Net rental revenue (rent revenue less vacancies)	<u>1,329,610</u>

Financial revenue:

5410	Financial revenue - project operations	10
5430	Revenue from investments - residual receipts	1,665
5440	Revenue from investments - reserve for replacement	2,686
5400T	Total financial revenue	<u>4,361</u>

Other revenue:

5910	Laundry revenue	6,851
5920	Tenant charges	110
5900T	Total other revenue	<u>6,961</u>
5000T	Total revenue	<u>1,340,932</u>

Expenses:

Administrative expenses:

6203	Conventions & Meetings	3,826
6210	Advertising	695
6250	Other rent expenses	290
6310	Office salaries	14,312
6311	Office expenses	11,948
6320	Management fee	86,799
6330	Manager salaries	64,115
6350	Audit expense	7,718
6351	Bookkeeping/accounting services	16,896
6390	Miscellaneous administrative expenses - service coordinator expense	14,384
6263T	Total administrative expenses	<u>220,983</u>

**Community Development Commission of the City of National City**  
**Morgan Towers Enterprise Fund**  
**HUD Project No. 129-38013-PB-WAH-L8**  
**Profit and Loss Data (Continued)**  
**For the Year Ended June 30, 2018**

Utilities expense:		
6450	Electric	\$ 60,844
6451	Water	53,185
6452	Gas	39,604
6453	Sewer	<u>45,600</u>
6400T	Total utilities expense	<u>199,233</u>
Operating and maintenance expenses:		
6510	Janitorial/maintenance payroll	145,981
6515	Supplies	45,316
6520	Contracts	126,803
6525	Garbage and trash removal	15,038
6530	Security contracts/payroll	31,408
6546	Heating/cooling repairs	26,158
6590	Miscellaneous expenses - Nutrition center expense	<u>46,140</u>
6500T	Total operating and maintenance expenses	<u>436,844</u>
Taxes and insurance:		
6711	Payroll taxes	17,496
6720	Property and liability insurance	42,897
6722	Workers' compensation	5,934
6723	Health insurance and employee benefits	<u>27,354</u>
6700T	Total taxes and insurance	<u>93,681</u>
Financial expenses:		
6820	Interest on mortgage payable	35,941
6850	Mortgage insurance premium	<u>3,173</u>
6800T	Total financial expenses	<u>39,114</u>
6000T	Total operating expenses before depreciation	<u>989,855</u>
5060T	Operating profit (loss) before depreciation	351,077
6600	Depreciation	<u>113,538</u>
5060N	Operating profit	237,539
3247	Change in unrestricted net assets from operations	<u>237,539</u>
3250	Change in total net assets from operations	<u><u>\$ 237,539</u></u>
Part II:		
S1000-010	Total first mortgage principal payments required during the audit period	<u>\$ 322,368</u>
S1000-020	The total of all monthly reserve for replacement deposits required during the audit period.	<u><u>\$ 37,524</u></u>

**Community Development Commission of the City of National City**  
**Morgan Towers Enterprise Fund**  
**HUD Project No. 129-38013-PB-WAH-L8**  
**Net Assets Data**  
**For the Year Ended June 30, 2018**

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Equity data:		
S1100-060	Previous year unrestricted net assets	\$ 1,622,655
3247	Change in unrestricted net assets from operations	<u>237,539</u>
3131	Unrestricted net assets	<u>1,860,194</u>
S1100-050	Previous year total net assets	<u>1,622,655</u>
3250	Change in total net assets from operations	<u>237,539</u>
3130	Total net assets	<u><u>\$ 1,860,194</u></u>



**Community Development Commission of the City of National City**  
**Morgan Towers Enterprise Fund**  
**HUD Project No. 129-38013-PB-WAH-L8**  
**Cash Flows Data**  
**For the Year Ended June 30, 2018**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

S1200-010	Rental receipts	\$ 523,901
S1200-020	Interest receipts	4,361
S1200-030	Tenant assistance payments	809,417
S1200-040	Total receipts	<u>1,337,679</u>
S1200-110	Operating and maintenance	<u>(937,967)</u>
S1200-230	Total disbursements	<u>(937,967)</u>
S1200-240	<b>Net cash provided by operating activities</b>	<u>399,712</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

S1200-250	Net deposits to the reserve for replacement account	(40,210)
S1200-260	Net deposits to the residual receipts account	(1,665)
S1200-340	Other investing activities - deposits to escrow deposit	(13,489)
S1200-350	<b>Net cash provided by investing activities</b>	<u>(55,364)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES:**

S1200-360	Mortgage principal payments	<u>(322,368)</u>
S1200-460	<b>Net cash used in financing activities</b>	<u>(322,368)</u>
S1200-470	<b>Net increase in cash and cash equivalents</b>	21,980

**CASH AND CASH EQUIVALENTS:**

S1200-480	Beginning of year	<u>13,464</u>
S1200T	End of year	<u>\$ 35,444</u>

**RECONCILIATION OF OPERATING PROFIT TO NET**

**CASH PROVIDED BY OPERATING ACTIVITIES:**

3250	Change in total net assets from operations	\$ 237,539
	Adjustments to reconcile operating profit to net cash provided by operating activities:	
6600	Depreciation and amortization	113,538
S1200-490	Tenant account receivable	442
S1200-500	Accounts receivable other	(4,328)
S1200-520	Prepaid expenses	9,028
S1200-530	Deposits held in trust: Tenant security deposits	(230)
S1200-540	Accounts payable	51,498
S1200-560	Accrued liabilities	(6,891)
S1200-570	Accrued mortgage interest	(1,747)
S1200-580	Deposit liabilities: Tenant security deposits	230
S1200-590	Prepaid revenue	633
	Total adjustments	<u>162,173</u>
S1200-610	<b>Net cash provided by operating activities</b>	<u>\$ 399,712</u>

**Community Development Commission of the City of National City**  
**Morgan Towers Enterprise Fund**  
**HUD Project No. 129-38013-PB-WAH-L8**  
**Schedule of Reserve for Replacements**  
**For the Year Ended June 30, 2018**

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1320P	Balance, July 1, 2017	\$	364,681
1320DT	Total monthly deposits		37,524
1320WT	Approved withdrawals		-
1320INT	Interest on reserve for replacement accounts		2,686
5120	Balance, June 30, 2018 confirmed by mortgagee	<u>\$</u>	<u>404,891</u>
1320R	Deposits suspended or waived indicator?		No

**Community Development Commission of the City of National City**  
**Morgan Towers Enterprise Fund**  
**HUD Project No. 129-38013-PB-WAH-L8**  
**Schedule of Residual Receipts**  
**For the Year Ended June 30, 2018**

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1340P	Balance, July 1, 2017	\$ 341,428
1340DT	Total monthly deposits	
1340INT	Interest on reserve for replacement accounts	<u>1,665</u>
1340	Balance, June 30, 2018	<u><u>\$ 343,093</u></u>

**Community Development Commission of the City of National City**  
**Morgan Towers Enterprise Fund**  
**HUD Project No. 129-38013-PB-WAH-L8**  
**Computation of Surplus Cash, Distributions, and Residual Receipts**  
**For the Year Ended June 30, 2018**

S1300-010	Cash	\$	80,323
1135	Accounts receivable - HUD		4,328
			84,651
S1300-040	Total cash		84,651
S1300-050	Accrued mortgage interest payable		2,185
S1300-075	Accounts payable (due within 30 days)		84,774
S1300-100	Accrued expenses (not escrowed)		16,045
2210	Prepaid revenue		633
2191	Tenant security deposits liability		44,879
			148,516
S1300-140	Total current obligations		148,516
S1300-150	Surplus cash (deficiency)	\$	(63,865)
S1300-210	Deposit due residual receipts	\$	-

**Community Development Commission of the City of National City**  
**Morgan Towers Enterprise Fund**  
**HUD Project No. 129-38013-PB-WAH-L8**  
**Schedule of Fixed Assets**  
**For the Year Ended June 30, 2018**

		Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
1410	Land	\$ 212,568	\$ -	\$ -	\$ 212,568
1420	Building and improvements	7,213,900	-	-	7,213,900
1440	Building equipment (portable)	147,960	-	-	147,960
	Total fixed assets	7,574,428	-	-	7,574,428
1495	Accumulated depreciation	(5,944,418)	(113,538)	-	(6,057,956)
1400N	Total net book value	\$ 1,630,010	\$ (113,538)	\$ -	\$ 1,516,472

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**SINGLE AUDIT REPORTS**

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**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 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, 2018, and the related notes to the financial statements and have issued our report thereon dated November 15, 2018.

**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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies as item 2018-001.

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 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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **The Commission's Responses to Findings**

The Commission's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Commission's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **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.

  
San Diego, California  
November 15, 2018



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED  
BY THE UNIFORM GUIDANCE**

**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 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, 2018. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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*, is-sued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance re-quire 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 Example Entity'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, 2018.

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## 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 the Uniform Guidance, 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.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

The PwC Group, LLP

San Diego, California  
November 15, 2018

**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, 2018**

Program Title	CFDA Number	Grant Award Number	Federal Expenditures
<b>U.S. Department of Housing and Urban Development</b>			
<i>Direct Program</i>			
<b>Section 8 Project-Based Cluster:</b>			
Section 8 New Construction and Substantial Rehabilitation Program	14.182	CA 60006011	\$ 802,456
<b>Section 8 Project-Based Cluster Subtotal</b>			<u>802,456</u>
Mortgage Insurance - Rental Housing for the Elderly	14.138	129-38013-PB-WAH-L8	<u>725,832</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u>1,528,288</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 1,528,288</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, 2018**

**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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

***Schedule of Expenditures of Federal Awards***

The accompanying Schedule of Expenditures of Federal Awards (Schedule) present only the expenditures incurred by the Morgan Towers Enterprise Fund that are subsidized under the federal program’s 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.

***Indirect Cost Rate***

The Commission has not elected to use the 10-percent de minimus indirect rate as allowed under the Uniform Guidance.

***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, 2018 was \$403,464. The principal portion of long-term debt maturities is as follows:

Year Ended	Principal
2019	\$ 343,958
2020	59,506
	\$ 403,464
Less current portion	(343,958)
Long-term portion	\$ 59,506

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, 2018**

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**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?	2018-001
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 200.516 of Uniform Guidance	No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster	Expenditures
14.182	Section 8 New Construction and Substantial Rehabilitation Program	\$ 802,456
	<b>Total Expenditures of All Major Federal Programs</b>	<u>\$ 802,456</u>
	<b>Total Expenditures of Federal Awards</b>	<u>\$ 1,528,288</u>
	<b>Percentage of Total Expenditures of Federal Awards</b>	<u>52.51%</u>

Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee under section 200.520 of Uniform Guidance?	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, 2018**

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**Section II – Financial Statement Findings**

**A. Current Year Findings**

**Finding: 2018-001, Overdue Submission of Required Annual Financial Statement**

**Criteria:**

HUD Handbook 4350.1, Chapter 3 – HUD Multifamily Housing Programs; “Reporting Requirements. The regulatory agreement for the project requires the owner to submit audited financial statements, prepared in accordance with the requirements of the Secretary, within 90 days after the end of the fiscal year. \*Although most regulatory agreements may indicate a required submission date of 60 days after the end of the fiscal year, 24 CFR [Code of Federal Regulations] 5.801, Uniform Financial Reporting Standards (UFRS), supersedes this requirement by giving projects 90 days to submit their financial statements\*.”

**Condition:**

The Commission did not submit the audited basic financial statements within 90 days after the end of the fiscal year as required by HUD.

**Cause:**

There was a delay in the review process of the financial statements that caused the financial statement submission to be occur after the 90 day time-limit.

**Context and Effect:**

Failure to submit audited financial statements could effect the Commission’s compliance with HUD requirements and ability to continue receiving HUD funding.

**Recommendation:**

The Commission should implement a process that keeps track of required reporting dates and required financial statement reviews to remain in compliance the HUD requirements.

**Views of Responsible Officials and Planned Corrective Actions:**

A more comprehensive review checklist has been implemented that keeps track of required reporting dates and is now in place to be sure that the financial statement submissions comply with HUD requirements.

**B. Prior Year Findings**

No financial statement findings were noted for the year ended June 30, 2017.



**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, 2018**

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**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, 2018.

**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, 2017.

**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, 2018**

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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 our knowledge and belief, the same is complete and accurate.

Date: November 15, 2018

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, 2018**

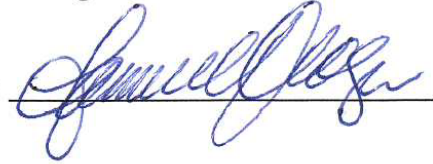
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We hereby certify that we have examined the accompanying financial statements and supplementary information of the Morgan Towers Enterprise Fund and, to the best of our knowledge and belief, the same is complete and accurate.

Date: November 15, 2018

Falkenberg/Gilliam & Associates, Inc.

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



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**CORRECTIVE ACTION PLAN**  
**2 CFR § 200.511(c)**  
**For the Year Ending June 30, 2018**

Finding And Recommendations	Corrective Action Plan	Anticipated Completion Date	Responsible Contact Person
<p><b>2018-001: Overdue Submission of Required Annual Financial Statement</b></p> <p><b><u>Condition:</u></b></p> <p>The Commission did not submit the audited basic financial statements within 90 days after the end of the fiscal year as required by HUD.</p> <p><b><u>Recommendation:</u></b></p> <p>The Commission should implement a process that keeps track of required reporting dates and required financial statement reviews to remain in compliance the HUD requirements.</p>	<p>A more comprehensive review checklist has been implemented that keeps track of required reporting dates and is now in place to be sure that the financial statement submissions comply with HUD requirements.</p>	<p>Implementation of the comprehensive review checklist that keeps track of required reporting dates is now in place to be sure that the financial statement submissions comply with HUD requirements.</p>	<p>Mark Roberts, Director of Finance</p>