

ABRAMS PARK

SPECIAL-PURPOSE FINANCIAL STATEMENTS

For the Year Ended June 30, 2009 and
For the Six Months Ended June 30, 2008



Mayer Hoffman McCann P.C.

An Independent CPA Firm

84 South First Street, Third Floor
San Jose, California 95113
408-794-3545 ph
408-295-3818 fx
www.mhm-pc.com

INDEPENDENT AUDITORS' REPORT

City Council
City of Marina, California

ABRAMS PARK

We have audited the special-purpose statement of financial position of Abrams Park (the Property) as of June 30, 2009 and 2008 and the related special-purpose statements of activities and net assets, and cash flows for the year ended June 30, 2009 and for the six months ended June 30, 2008. These financial statements are the responsibility of the Property's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

The special-purpose financial statements were prepared to present the financial positions of Abrams Park as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the year ended June 30, 2009 and for the six months ended June 30, 2008, excluding certain land and building, for the purpose of complying with the management agreement dated December 7, 2007 between Alliance Communities, Inc., the City of Marina and the City of Marina Abrams B Non-Profit Corporation, LLC (see Note 1) and are not intended to be a complete presentation of the Property's assets and liabilities.

In our opinion, the special-purpose financial statements referred to above present fairly in all material respects the financial positions of Abrams Park as of June 30, 2009 and 2008, excluding certain land and building, and the changes in its net assets and its cash flows for the year ended June 30, 2009 and for the six months ended June 30, 2008 in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated January 6, 2010 on our consideration of Abrams Park's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Mayer Hoffman McCann P.C.

San Jose, California
January 6, 2010

ABRAMS PARK

SPECIAL-PURPOSE STATEMENTS OF FINANCIAL POSITION

June 30, 2009 and 2008

	2009	2008
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 373,483	\$ 278,892
Tenant receivables	1,667	1,652
Prepaid expenses	-	53,650
TOTAL CURRENT ASSETS	375,150	334,194
CASH RESTRICTED FOR EQUIPMENT PURCHASES	412,625	319,787
PROPERTY AND EQUIPMENT, net	3,864,968	4,195,644
TOTAL ASSETS	\$ 4,652,743	\$ 4,849,625
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 81,821	\$ 125,904
Deferred revenue	13,529	5,414
TOTAL CURRENT LIABILITIES	95,350	131,318
TENANT SECURITY DEPOSITS	188,762	187,138
TOTAL LIABILITIES	284,112	318,456
NET ASSETS - UNRESTRICTED	4,368,631	4,531,169
TOTAL LIABILITIES AND NET ASSETS	\$ 4,652,743	\$ 4,849,625

See Notes to Special-Purpose Financial Statements

ABRAMS PARK

SPECIAL-PURPOSE STATEMENTS OF ACTIVITIES AND NET ASSETS

For the Year Ended June 30, 2009 and
For the Six Months Ended June 30, 2008

	2009	2008
RENTAL INCOME, net	\$ 2,408,527	\$ 1,207,940
OPERATING EXPENSES		
Administrative	288,961	112,442
Utilities	82,047	41,195
Operating and maintenance	330,732	251,979
Taxes and insurance	105,434	65,827
Depreciation and amortization	355,725	177,272
TOTAL OPERATING EXPENSES	1,162,899	648,715
OPERATING INCOME	1,245,628	559,225
OTHER INCOME		
Miscellaneous revenue	14,793	-
Interest income	6,691	2,060
TOTAL OTHER INCOME	21,484	2,060
CHANGE IN NET ASSETS BEFORE DISTRIBUTIONS TO OWNER	1,267,112	561,285
DISTRIBUTIONS TO OWNER	1,429,650	900,000
CHANGE IN NET ASSETS	(162,538)	(338,715)
NET ASSETS, BEGINNING OF PERIOD	4,531,169	4,869,884
NET ASSETS, END OF PERIOD	\$ 4,368,631	\$ 4,531,169

See Notes to Special-Purpose Financial Statements

ABRAMS PARK

SPECIAL-PURPOSE STATEMENTS OF CASH FLOWS

For the Year Ended June 30, 2009 and
For the Six Months Ended June 30, 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets before distributions to owners	\$ 1,267,112	\$ 561,285
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	355,725	177,272
Decrease (increase) in operating assets:		
Tenant receivables	(15)	1,948
Prepaid expenses	53,650	(18,460)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(44,083)	79,623
Deferred revenue	8,115	4,459
Tenant security deposits	1,624	(6,502)
	<u>1,642,128</u>	<u>799,625</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash restricted for equipment purchases	(92,838)	(93,944)
Investment in property and equipment	<u>(25,049)</u>	<u>(3,031)</u>
	<u>(117,887)</u>	<u>(96,975)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Distributions to owners	<u>(1,429,650)</u>	<u>(900,000)</u>
	<u>(1,429,650)</u>	<u>(900,000)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	94,591	(197,350)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>278,892</u>	<u>476,242</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 373,483</u>	<u>\$ 278,892</u>

See Notes to Special-Purpose Financial Statements

ABRAMS PARK

NOTES TO SPECIAL-PURPOSE FINANCIAL STATEMENTS

(1) **Summary of significant accounting policies**

Nature of operations – Abrams Park (the Property) consists of 194 housing units and is located at 2960 Carpenter Court, Marina, California. This complex is owned by the City of Marina and is leased to the City of Marina Abrams B Non-Profit Corporation, LLC, a California nonprofit public benefit corporation. The Property is managed by Alliance Communities, Inc.

Basis of Accounting – The Property has prepared the accompanying special-purpose financial statements to present the assets, liabilities, activities and cash flows of Abrams Park pursuant to the management agreement (Management Agreement) between the City of Marina, City of Marina Abrams B Non-Profit Corporation, LLC and Alliance Communities, Inc. dated December 7, 2007. The agreement specifies that the Property prepare special-purpose financial statements in which the activities of the housing units are presented in accordance with U.S. generally accepted accounting principles, excluding land and the building used by the Property, which are reported in the financial statements of the City of Marina.

Use of estimates – The preparation of these special-purpose financial statements in conformity with the basis of accounting described above requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and cash equivalents – Cash and cash equivalents consist of highly liquid investments with an initial maturity of three months or less. The carrying value of cash and cash equivalents approximates fair value because of the short term maturities of those financial instruments.

Cash restricted for equipment purchases – As required by the City of Marina, the Property maintains a capital reserve cash account for future capital purchases. As of June 30, 2009 and 2008, the reserve balance was \$412,625 and \$319,787, respectively.

Concentration of credit risk – Financial instruments that potentially subject the Property to concentrations of credit risk consist of cash and cash equivalents, to the extent they exceed federal insurance limits. The Property mitigates risks to its cash and cash equivalents by banking with creditworthy financial institutions.

Revenue recognition – Rental income is recorded at maximum gross potential. Vacancy loss is recorded as a reduction in rental income. Rental units occupied by employees are included in rental income and as an expense of operations.

Advertising costs – Advertising costs are charged to operations when incurred. Advertising expense was \$2,776 for the year ended June 30, 2009 and \$2,761 for the six months ended June 30, 2008.

ABRAMS PARK

NOTES TO SPECIAL-PURPOSE FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Depreciation and amortization – Depreciation and amortization is computed on the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Useful Lives</u>
Leasehold improvements	5 - 20 years
Furniture and fixtures	7 years
Automobiles	5 years

Rental units below market value – In accordance with the Management Agreement tenants may qualify for rental rates below current market values according to household size and income. For the year ended June 30, 2009 the Property had 77 units rented below market value. For the six month period ending June 30, 2008 the Property had 74 units rented below market value.

Impairment of long-lived assets – The Property evaluates its long-lived assets for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If the comparison indicates such assets are impaired, the impairment loss to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. The fair value of the assets is determined by discounted cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

Subsequent Events – The Property has evaluated subsequent events through January 6, 2010, which is the date the financial statements were available to be issued.

ABRAMS PARK

NOTES TO SPECIAL-PURPOSE FINANCIAL STATEMENTS

(2) Property and equipment, net

	June 30,	
	2009	2008
Cost:		
Leasehold improvements	\$ 6,812,612	\$ 6,787,563
Furniture and fixtures	358,722	358,722
Automobile	31,055	31,055
	7,202,389	7,177,340
Accumulated depreciation and amortization	(3,337,421)	(2,981,696)
	\$ 3,864,968	\$ 4,195,644

Depreciation and amortization expense amounted to \$355,725 for the year ended June 30, 2009 and \$177,272 for the six months ended June 30, 2008.

(3) Management agreement

As discussed in Note 1, the Property is managed under a management agreement between the City of Marina, City of Marina Abrams B Non-Profit Corporation, LLC and Alliance Communities, Inc. Management fees paid to Alliance Communities, Inc., for the year ended June 30, 2009 and for the six months ended June 30, 2008 were \$60,350 and \$30,153, respectively.

ADDITIONAL INFORMATION



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INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

City Council
City of Marina, California

ABRAMS PARK

Our report on our audits of the basic special-purpose financial statements of Abrams Park for the year ended June 30, 2009 and for the six months ended June 30, 2008 appears on page 1. Those audits were conducted for the purpose of forming an opinion on the basic special-purpose financial statements taken as a whole. The schedules of operating expenses are presented for purposes of additional analysis and are not a required part of the basic special-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mayer Hoffman McCann P.C.

San Jose, California
January 6, 2010

ABRAMS PARK

SCHEDULES OF OPERATING EXPENSES

For the Year Ended June 30, 2009 and
For the Six Months Ended June 30, 2008

	<u>2009</u>	<u>2008</u>
Administrative		
Office salaries	\$ 74,125	\$ 8,887
Office supplies	14,895	3,477
Office support and development	13,961	11,054
Bank and credit bureau fees	5,317	599
Management fees	60,350	30,153
Management salaries	54,889	19,199
Management consulting fees	7,785	2,954
Legal	4,588	5,197
Audit	4,508	-
Telephone	8,643	6,403
Advertising and renting	7,010	3,325
Miscellaneous	32,890	21,194
Total administrative	<u>288,961</u>	<u>112,442</u>
Utilities		
Electricity	3,264	3,235
Gas	2,674	2,060
Water, trash and sewer	76,109	35,900
Total utilities	<u>82,047</u>	<u>41,195</u>
Operating and maintenance		
Janitorial services and supplies	1,452	807
Maintenance payroll	184,411	117,352
Maintenance services and supplies	30,378	25,249
Exterminating contract and supplies	950	-
Grounds contract and supplies	50,182	32,700
Security	1,529	665
Carpet cleaning and replacement	34,714	50,951
Other replacements	26,021	18,933
Miscellaneous	1,095	5,322
Total operating and maintenance	<u>330,732</u>	<u>251,979</u>
Taxes and insurance		
Payroll taxes	19,105	7,249
Property taxes	43,406	37,437
Property and liability insurance	40,758	20,058
Other insurance	2,165	1,083
Total taxes and insurance	<u>105,434</u>	<u>65,827</u>
Depreciation and amortization	<u>355,725</u>	<u>177,272</u>
	<u>\$ 1,162,899</u>	<u>\$ 648,715</u>



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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 *GOVERNMENT AUDITING STANDARDS***

City Council
City of Marina, California

ABRAMS PARK

We have audited the special-purpose financial statements of Abrams Park (the Property) for the year ended June 30, 2009 and for the six months ended June 30, 2008, and have issued our report thereon dated January 6, 2010. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Property's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Property's financial statements that is more than inconsequential will not be prevented or detected by the Property's internal control.

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

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



Compliance and Other Matters

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

We noted certain matters that we reported to management of Abrams Park in a separate letter dated January 6, 2010.

Meyer Hoffman McLennan P.C.

San Jose, California
January 6, 2010