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**ABRAMS PARK**  
**SPECIAL-PURPOSE FINANCIAL STATEMENTS**  
**AND INDEPENDENT AUDITOR'S REPORT**

**For the Years Ended June 30, 2011 and 2010**

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**MANN, URRUTIA, NELSON CPAS & ASSOCIATES, LLP**  
**2515 VENTURE OAKS WAY, SUITE 135**  
**SACRAMENTO, CA 95833**

**ABRAMS PARK  
SPECIAL-PURPOSE FINANCIAL STATEMENTS  
June 30, 2011 and 2010**

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## INDEPENDENT AUDITOR'S REPORT

City Council  
City of Marina, California

### Abrams Park

We have audited the special-purpose financial statements of Abrams Park (the Property) as of and for the years ended June 30, 2011 and 2010 and the related special-purpose statements of activities and net assets, and cash flows for the years ended as listed in the table of contents. These special-purpose financial statements are the responsibility of the Property's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose 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 audit provides a reasonable basis for our opinions.

The special-purpose financial statements were prepared to present the financial position of Abrams Park as of June 30, 2011 and 2010, excluding the Property's capital assets, and the changes in its net assets and cash flows for the years ending June 30, 2011 and 2010, 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, liabilities, and activities. Please refer to the City of Marina's annual financial report for a complete presentation of the financial position of Abrams Park.

In our opinion, the special-purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Abrams Park, as of June 30, 2011 and 2010, excluding the Property's capital assets, and the respective changes in net assets and cash flows for the years then ended June 30, 2011 and 2010 in conformity with the accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the special-purpose financial statements that collectively comprise the Property's special-purpose financial statements as a whole. The schedule of operating expenses is presented for purposes of additional analysis and is not a required part of the special-purpose financial statements. The schedule of operating expenses is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the special-purpose financial statements. The information has been subjected to the auditing procedures applied in the audit of the special-purpose financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the special-purpose financial statements or to the special-purpose 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 as a whole.

Sacramento, California  
September 16, 2011

### PRINCIPALS

Chris A. Mann, CPA, CFP ♦ John R. Urrutia, CPA ♦ Michelle O. Nelson, CPA, CFE, CVA

Justin J. Williams, CPA, CVA ♦ Neil J. Beeman, CPA ♦ Kriss Ann Mann, CPA, CCPS ♦ Christine L. Collins, EA

**ABRAMS PARK  
SPECIAL-PURPOSE STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2011 AND 2010**

<b>ASSETS</b>	2011	2010
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (Note 2)	\$ 696,616	\$ 514,473
Tenant receivables	3,970	1,900
Total Current Assets	700,586	516,373
<b>NON-CURRENT ASSETS</b>		
Cash restricted for equipment purchases (Note 2)	823,530	585,224
<b>TOTAL ASSETS</b>	<b>\$ 1,524,116</b>	<b>\$ 1,101,597</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 28,092	\$ 52,153
Deferred revenue	24,085	12,301
Total Current Liabilities	52,177	64,454
<b>NON-CURRENT LIABILITIES</b>		
Tenant security deposits	246,152	232,831
Total Liabilities	298,329	297,285
Net assets - unrestricted	1,225,787	804,312
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,524,116</b>	<b>\$ 1,101,597</b>

See Notes to Special-Purpose Financial Statements

**ABRAMS PARK  
SPECIAL-PURPOSE STATEMENTS OF ACTIVITIES AND NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	2011	2010
<b>OPERATING REVENUES</b>		
Rental income, net	\$ <u>2,757,703</u>	\$ <u>2,628,868</u>
<b>OPERATING EXPENSES</b>		
Administrative	304,786	296,844
Utilities	70,579	77,831
Operating and maintenance	412,632	371,077
Taxes and insurance	<u>60,024</u>	<u>64,461</u>
Total Operating Expenses	<u>848,021</u>	<u>810,213</u>
Net Operating income	<u>1,909,682</u>	<u>1,818,655</u>
<b>OTHER INCOME</b>		
Miscellaneous revenue	30,618	-
Interest income	<u>1,899</u>	<u>2,728</u>
Total Other Income	<u>32,517</u>	<u>2,728</u>
<b>CHANGE IN NET ASSETS BEFORE DISTRIBUTIONS TO OWNER</b>	<u>1,942,199</u>	<u>1,821,383</u>
Distributions to Owner	1,520,724	1,520,734
<b>CHANGE IN NET ASSETS</b>	<u>421,475</u>	<u>300,649</u>
<b>NET ASSETS, BEGINNING OF PERIOD</b>	804,312	4,368,631
Prior Period Adjustment (Note 4)	<u>-</u>	<u>(3,864,968)</u>
<b>NET ASSETS BEGINNING OF PERIOD, RESTATED</b>	<u>-</u>	<u>503,663</u>
<b>NET ASSETS, END OF PERIOD</b>	<u>\$ 1,225,787</u>	<u>\$ 804,312</u>

See Notes to Special-Purpose Financial Statements

**ABRAMS PARK  
SPECIAL-PURPOSE STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	2011	2010
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Change in net assets before distributions to owners	\$ 1,942,199	\$ 1,821,383
Adjustments to reconcile changes in net assets to net cash flows provided by operating activities:		
Decrease (increase) in operating assets:		
Tenant receivables	(2,070)	(233)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(24,061)	(29,668)
Deferred revenue	11,784	(1,228)
Tenant security deposits	13,321	44,069
Net cash flows provided by operating activities	1,941,173	1,834,323
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Cash restricted for equipment purchases	(238,306)	(172,599)
Net cash flows used for investing activities	(238,306)	(172,599)
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>		
Distributions to owners	(1,520,724)	(1,520,734)
Net cash flows used for financing activities	(1,520,724)	(1,520,734)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>182,143</b>	<b>140,990</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD</b>	<b>514,473</b>	<b>373,483</b>
<b>CASH AND CASH EQUIVALENTS - END OF PERIOD</b>	<b>\$ 696,616</b>	<b>\$ 514,473</b>

See Notes to Special-Purpose Financial Statements

**ABRAMS PARK  
NOTES TO SPECIAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**NOTE 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. The 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 the Property as of June 30, 2011 and 2010, excluding the Property's capital assets, 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 United States generally accepted accounting principles, excluding the Property's capital assets, which are reported in the financial statements of the City of Marina. Please refer to the City of Marina's annual financial report for a complete presentation of the financial position of Abrams Park.

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.

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 gross rental income and as an offset through a revenue contra account to derive the net rental income as presented in the special-purpose Statement of Activities.

Deferred Revenue

Deferred revenue consists of tenant rental prepayments. Deferred revenue totaled \$24,085 and \$12,301 as of June 30, 2011 and 2010, respectively.

Advertising Costs

Advertising costs are charged to operations when incurred. Advertising expense totaled \$4,310 for the year ended June 30, 2011 and \$5,162 for the year ended June 30, 2010.

**ABRAMS PARK  
NOTES TO SPECIAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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, 2011, the Property had 67 units rented below market value. For the year ending June 30, 2010, the Property had 54 units rented below market value.

Subsequent Events

The Property has evaluated subsequent events through September 16, 2011, which is the date the financial statements were available to be issued.

**NOTE 2: CASH AND CASH EQUIVALENTS**

The Property maintains three accounts at one financial institution. As of June 30, 2011 and 2010, book balances totaled \$1,520,146 and \$1,099,697, respectively. Bank balances totaled \$1,540,767 and \$1,114,892 as of June 30, 2011 and 2010.

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. As the Property's bank accounts are held by the City of Marina, collateral is pledged to cover the deposits at a margin of 110% as required.

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, 2011 and 2010, the reserve balance was \$823,530 and \$585,224, respectively, and was included in the book and bank balances above.

**NOTE 3: MANAGEMENT AGREEMENT**

As discussed in Note 1, the Property is managed under a management agreement between the City of Marina, City Marina Abrams B Non-Profit Corporation, LLC and Alliance Communities, Inc. Management fees paid to Alliance Communities, Inc., for the years ended June 30, 2011 and 2010 totaled \$68,973 and 65,710, respectively.

**NOTE 4: PRIOR PERIOD ADJUSTMENT**

During the audit, it was discovered that the capital assets previously presented in the special-purpose financial statements were inconsistent with the City of Marina comprehensive annual financial report; inconsistent with the City capitalization policy; not capitalizable, to some extent; and unsubstantiated, to some extent. Accordingly, an adjustment was required which reduced net assets in 2010 by \$3,864,968. The capital assets that were removed by the prior period adjustment are reported accordingly in the City financial statements.

**SUPPLEMENTAL INFORMATION**

**ABRAMS PARK  
SCHEDULE OF OPERATING EXPENSES  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
Administrative		
Office salaries	\$ 88,834	\$ 60,692
Office supplies	7,837	7,891
Office support and development	57,731	43,550
Bank and credit bureau fees	6,003	6,191
Management fees	68,973	65,710
Management salaries	48,408	54,717
Management consulting fees	8,981	29,485
Legal	6,810	4,030
Audit	-	12,346
Telephone	6,899	7,070
Advertising and renting	<u>4,310</u>	<u>5,162</u>
Total Administrative	<u>304,786</u>	<u>296,844</u>
Utilities		
Electricity	6,159	6,252
Gas	810	2,000
Water, trash and sewer	<u>63,610</u>	<u>69,579</u>
Total Utilities	<u>70,579</u>	<u>77,831</u>
Operating and maintenance		
Janitorial services and supplies	2,556	9,531
Maintenance payroll	112,656	135,719
Maintenance services and supplies	61,123	38,772
Exterminating contract and supplies	1,156	2,920
Grounds contract and supplies	66,494	44,188
Security	1,523	1,878
Carpet cleaning and replacement	147,221	123,042
Other replacements	16,679	13,416
Miscellaneous	<u>3,224</u>	<u>1,611</u>
Total Operating and Maintenance	<u>412,632</u>	<u>371,077</u>
Taxes and insurance		
Payroll taxes	16,017	18,821
Property taxes	41,855	41,404
Property and liability insurance	2,152	-
Other insurance	<u>-</u>	<u>4,236</u>
Total Taxes and Insurance	<u>60,024</u>	<u>64,461</u>
Total Operating Expenses	<u>\$ 848,021</u>	<u>\$ 810,213</u>