

RURAL COMMUNITIES  
HOUSING DEVELOPMENT CORPORATION

ANNUAL FINANCIAL REPORT

OCTOBER 31, 2008

ROBERTSON & ASSOCIATES, CPAs  
A Professional Corporation

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION  
ORGANIZATION  
OCTOBER 31, 2008

Rural Communities Housing Development Corporation (RCHDC) is a California not-for-profit corporation which was incorporated in November 1975. The primary purpose of RCHDC is to develop low-cost housing through the use of government financing, subsidies and other available resources to alleviate housing problems affecting low and moderate income families and to promote the welfare of the elderly and handicapped.

**BOARD MEMBERS**

<u>Name</u>	<u>Date Seated</u>	<u>Term Expires</u>
Andrew Peterson, President	October 30, 2006	November 2011
William Thompson, Vice President	March 11, 2005	November 2009
Kathleen Stone, Secretary	September 5, 2006	November 2011
Ron Caviglia, Treasurer	February 24, 1998	November 2009
Peter Klien	July 28, 2008	November 2011
Vacant		
Cindy Silva	March 11, 2005	November 2009
Vacant		
Holly Madrigal	September 5, 2006	November 2011
Vacant		
Catherine Elias-Jermany	October 30, 2006	November 2009
Marcia Williams	February 24, 1998	November 2011
Vacant		
Vacant		
Vacant		

**ADMINISTRATION**

Bruce Alfano - Executive Director

Lois Goforth - Fiscal Officer

**ADDRESS OF CORPORATE OFFICE**

499 Leslie Street  
Ukiah, California 95482

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION  
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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Rural Communities Housing Development Corporation  
Ukiah, California

We have audited the accompanying consolidated statement of financial position of Rural Communities Housing Development Corporation (a nonprofit organization) and its affiliates (see Note 1) as of October 31, 2008, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and the 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 opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rural Communities Housing Development Corporation and its affiliates as of October 31, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2009, on our consideration of Rural Communities Housing Development Corporation and its affiliates' 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 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 important for assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Rural Communities Housing Development Corporation and its affiliates taken as a whole. The supplemental information (shown on pages 32 through 38) is presented for purposes of additional analysis and is not a required part of the financial statements of the Organization. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Robinson & Associates, CPAs*

Lakeport, California  
September 3, 2009

## FINANCIAL SECTION

**RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**OCTOBER 31, 2008**

ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Current Assets:</b>				
Cash and cash equivalents	\$ 1,658,479	\$ -	\$ 159,016	\$ 1,817,495
Net tenant accounts receivable	10,818	-	-	10,818
Tenant assistance accounts receivable	44,603	-	-	44,603
Other accounts receivable	8,770	-	-	8,770
Due from related parties	529,009	-	-	529,009
Prepaid expenses	144,721	-	-	144,721
<b>Total Current Assets</b>	<b>2,396,400</b>	<b>-</b>	<b>159,016</b>	<b>2,555,416</b>
<b>Deposits:</b>				
Tenant security deposits held in trust	173,930	-	-	173,930
Tax and insurance impounds	198,921	-	-	198,921
Replacement reserve	1,952,394	-	-	1,952,394
Other reserves	778,364	-	-	778,364
Residual receipts reserve	472,854	-	-	472,854
Cash restricted for pension plan	23,046	-	-	23,046
Cash restricted for self-insurance plan	32,378	-	-	32,378
<b>Total Deposits</b>	<b>3,631,887</b>	<b>-</b>	<b>-</b>	<b>3,631,887</b>
Fixed Assets net of Accumulated Depreciation	30,704,586	135,000	744,000	31,583,586
<b>Other Assets:</b>				
Long-term notes receivable	505,596	155,000	347,259	1,007,855
Investment in affiliates	40,317	-	75,000	115,317
Land held for development	4,032,520	-	-	4,032,520
Development costs	4,430,056	-	600,000	5,030,056
<b>Total Other Assets</b>	<b>9,008,489</b>	<b>155,000</b>	<b>1,022,259</b>	<b>10,185,748</b>
<b>Total Assets</b>	<b>\$ 45,741,362</b>	<b>\$ 290,000</b>	<b>\$ 1,925,275</b>	<b>\$ 47,956,637</b>
<b>LIABILITIES AND NET ASSETS (DEFICIT)</b>				
<b>Liabilities:</b>				
<b>Current Liabilities:</b>				
Checks issued in excess of deposits	\$ 1,366,512	\$ -	\$ -	\$ 1,366,512
Accounts payable and accrued liabilities	531,203	-	-	531,203
Accrued interest payable	120,715	-	-	120,715
Due to related parties	460,522	-	-	460,522
Current portion mortgages and notes payable	2,180,653	-	-	2,180,653
Deferred revenue	38,846	-	-	38,846
<b>Total Current Liabilities</b>	<b>4,698,451</b>	<b>-</b>	<b>-</b>	<b>4,698,451</b>
<b>Long-Term Liabilities:</b>				
Tenant security deposits	188,305	-	-	188,305
CDC investment in Lake Mendocino Drive	471,000	-	-	471,000
Accrued interest payable	1,058,517	-	-	1,058,517
Mortgages and notes payable	38,656,184	-	-	38,656,184
<b>Total Long-Term Liabilities</b>	<b>40,374,006</b>	<b>-</b>	<b>-</b>	<b>40,374,006</b>
<b>Total Liabilities</b>	<b>45,072,457</b>	<b>-</b>	<b>-</b>	<b>45,072,457</b>
Net Assets (Deficit)	668,905	290,000	1,925,275	2,884,180
<b>Total Liabilities and Net Assets (Deficit)</b>	<b>\$ 45,741,362</b>	<b>\$ 290,000</b>	<b>\$ 1,925,275</b>	<b>\$ 47,956,637</b>

See accompanying notes and independent auditor's report.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION  
CONSOLIDATED STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2008

REVENUES	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net tenant rents	\$ 1,593,186	\$ -	\$ -	\$ 1,593,186
Tenant assistance payments	2,891,613	-	-	2,891,613
Other rents	104,081	-	-	104,081
Grant income	450,623	85,000	175,000	710,623
Interest income	50,831	-	-	50,831
Management fees and reimbursements	259,516	-	-	259,516
Operational revenue	359,750	-	-	359,750
Other revenue	398,989	-	-	398,989
Gain (loss) on sale of development properties	-	-	-	-
Released from restrictions	-	-	-	-
<b>Total Revenues</b>	<b>6,108,589</b>	<b>85,000</b>	<b>175,000</b>	<b>6,368,589</b>
<b>EXPENSES</b>				
Administrative services	1,948,076	-	-	1,948,076
Utilities	502,044	-	-	502,044
Operating and maintenance:				
Operating accounts	993,326	-	-	993,326
Replacement reserve and residual receipts accounts	98,327	-	-	98,327
Taxes and insurance	606,733	-	-	606,733
Interest expense	1,389,369	-	-	1,389,369
Amortization and depreciation	1,083,141	-	-	1,083,141
<b>Total Expenses</b>	<b>6,621,016</b>	<b>-</b>	<b>-</b>	<b>6,621,016</b>
Change In Net Assets	(512,427)	85,000	175,000	(252,427)
Net Assets Deficit), Beginning	1,181,332	205,000	1,750,275	3,136,607
<b>Net Assets (Deficit), Ending</b>	<b>\$ 668,905</b>	<b>\$ 290,000</b>	<b>\$ 1,925,275</b>	<b>\$ 2,884,180</b>

See accompanying notes and independent auditor's report.



**RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE FISCAL YEAR ENDED OCTOBER 31, 2008**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in Total Net Assets from Operations	\$ (252,427)
Adjustments to Reconcile Changes in Net Asset to Net cash Provided by (Used in) Operating Activities:	
Amortization and Depreciation	1,083,141
Decrease (Increase) in:	
Net tenant accounts receivable	(3,948)
Tenant assistance accounts receivable	(19,921)
Other accounts receivable	(2,443)
Prepaid expenses	8,710
Increase (Decrease) in:	
Checks issued in excess of deposits	568,178
Accounts payable and accrued liabilities	(36,400)
Accrued interest payable	(105,576)
Deferred revenue	9,434
Net Cash Provided by (Used in) Operating Activities	<u>1,248,748</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Decrease (Increase) in:	
Tenant deposits held in trust	5,199
Tax and insurance impounds	57,944
Replacement reserve	(181,816)
Capital investment	16,193
Other reserves	(129,905)
Residual receipts reserve	(112,071)
Cash restricted for pension plan	6,659
Cash restricted for self-insurance plan	(7,627)
Cash restricted until completion of project	49,974
Purchase of fixed assets	(13,776,945)
Decrease (Increase) in due from related parties	497,307
Increase in long-term notes receivable	(204,075)
Increase in investment in affiliates	33,041
Increase in development costs	8,644,006
Transfer of land held for development	125,000
Net Cash Provided by (Used in) Investing Activities	<u>(4,977,116)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Proceeds from mortgages and notes payable	5,760,139
Increase (Decrease) in due to related parties	82,880
Increase in long-term accrued interest	578,838
Increase in CDC investment in Lake Mendocino Drive	471,000
Increase (Decrease) in construction contracts payable	(1,572,607)
Principal payments on mortgages and notes payable	(1,720,027)
Net Cash Provided by (Used in) Financing Activities	<u>3,600,223</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(128,145)
Cash and Cash Equivalents, Beginning	<u>1,945,640</u>
Cash and Cash Equivalents, Ending	<u>\$ 1,817,495</u>
Amounts Paid for Interest	<u>\$ 1,612,670</u>
Amounts Paid for Income Tax	<u>\$ -</u>

See accompanying notes and independent auditor's report.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
OCTOBER 31, 2008

**NOTE 1.     ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization

Rural Communities Housing Development Corporation (RCHDC) is a California not-for-profit corporation that was incorporated in November 1975. The primary purpose of RCHDC is to develop low-cost housing through the use of government financing, subsidies and other available resources to alleviate housing problems affecting low and moderate income families and to promote the welfare of the elderly and handicapped.

Principles of Consolidation

The accompanying financial statements include the accounts of the RCHDC and its affiliates. Significant intercompany accounts and transactions have been eliminated in consolidation, as presented in the respective statement columns. Intercompany transactions include management fees, accounting fees and receivables and payables between related parties.

These financial statements include Funds 10, 20, 21, 22, 23, 70 and 90 of RCHDC, its owned housing projects, and controlled housing projects and related entities. All but two of the controlled housing projects are owned by separate corporations, which share the same board of directors as RCHDC. The other two of the controlled housing projects are owned by limited partnerships in which both the general partner and the limited partner are corporations, which share the same board of directors as RCHDC. The controlled entities, other than housing projects, are generally corporations or limited liability companies, which share the same board of directors as RCHDC. Some of these controlled entities were formed to serve as general partners in limited partnerships which own housing projects that are not consolidated in the financial statements. RCHDC also manages other housing projects with unrelated ownership that are not consolidated in the financial statements.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 OCTOBER 31, 2008

**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
 (Continued)

**Rural Communities Housing Development Corporation (RCHDC)**

<b>RCHDC Funds</b>	<b>Fund Number</b>
Corporate Fund	Fund 10
Administrative Fund	Fund 20
Revolving Development Fund	Fund 21
Property Management	Fund 22
First Time Home Buyer	Fund 23
Self-Help Technical Assistance Grant	Fund 70
Self-Help Construction Trust Fund	Fund 90

<b>RCHDC Owned Projects</b>	
Creekside Village	McCarty Manor
Cypress Ridge	McCloud Motel Apartments
Highlands Village	Oak Hill Apartments
Holden Street	Sunshine Manor
Holly Heights I	Walnut Village
Holly Heights II	Gibson Court 4 Apartments *

<b>Controlled Entities</b>	<b>Project Operations Included</b>
Pine Gardens I, Inc.	
Redwood Court Property Corporation	
Redwood Court Property, A California Limited Partnership	Redwood Court Apartments
CC Seabreeze, LLC	
CC Seagull Villa, LLC	
Clara Court LP	Project in development
Bevins Court Housing Corporation	Bevins Court Apartments
Clearlake Housing Corporation	North Shore Villas
Gibson Court Housing Corporation	Gibson Court Apartments *
Lakeview Housing, Inc.	Lakeview Apartments
Low Gap Housing Corporation	Jack Simpson School View Apartments
North Pine Street Senior Housing Corporation	North Pine Street Apartments
Red Bluff Senior Housing Corporation	Oak Park Manor
Siskiyou Gardens Inc.	Siskiyou Garden Apartments
Washington Court Senior Housing Corporation	Washington Court Apartments
Willits Senior Housing Corporation	Lenore Street Senior Housing

\* Gibson Court Housing Corporation was only able to obtain funding to support 12 of the 16 units at Gibson Court Apartments. RCHDC provided the funding for the remaining 4 units.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
OCTOBER 31, 2008

**NOTE 1.     ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
(Continued)

Basis of Accounting

RCHDC uses the accrual basis of accounting. Under the accrual basis of accounting revenues are recognized when earned and expenses are recognized when incurred.

Net Asset Classes

Unrestricted Net Assets are those currently available for use of the organization, as determined by the management and board of directors as appropriate.

Temporarily Restricted Net Assets are those received with donor stipulations that limit the use of the donated assets. Once the donor stipulations have been met, these net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets are those contributed with donor stipulations that permanently limit the use of the donated assets for the purpose intended by the donor.

Description of Funds

RCHDC maintains separate funds for each low-income housing project it owns and for each Federal grant it administers. In addition to these funds, RCHDC maintains corporate, administrative and trust funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Resources are allocated to, and accounted for, in individual funds based upon the purposes for which they are intended. The corporate, administrative, operating and trust funds are grouped into categories as follows:

Corporate Fund (Fund 10)

Assets, such as land, buildings, computer equipment and other assets, used by RCHDC to manage its housing projects and funds are recorded in Fund 10. Sources of revenue for Fund 10 include interest earned on bank accounts and other miscellaneous revenues. Fund 10 is charged with depreciation for the fixed assets discussed above.

Administrative Fund (Fund 20)

Sources of revenue for Fund 20 generally include rental income from commercial real estate owned by the Company, accounting fees charged to some of the housing projects where appropriate, laundry revenue from contracts with many of the housing projects managed by RCHDC, and expendable grant income where appropriate. All administrative costs of managing RCHDC and its related entities as well as costs specifically related to the production of revenue discussed above are charged to Fund 20.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
OCTOBER 31, 2008

**NOTE 1.**     ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)

Revolving Development Fund (Fund 21)

Fund 21 is used to acquire and develop land for proposed Self-Help projects and for low-income family and elderly housing projects. Revenues for Fund 21 generally include grant income designated for specific projects or developer fees associated with the completion and lease-up of new or rehabilitated low-income housing projects.

Property Management Fund (Fund 22)

Revenues for Fund 22 generally include property management fees from both affiliated and unaffiliated low-income housing projects that are managed by RCHDC. All direct costs of property management are charged to Fund 22.

First Time Home Buyer Fund (Fund 23)

All direct costs associated with the Home Ownership Center are charged to Fund 23. Revenues for Fund 23 generally include nominal charges to participants in the home ownership classes as well as grant income as appropriate.

Self-Help Technical Assistance Grant (Fund 70)

Fund 70 administers the USDA and HCD Technical Assistance grant funds to support the Self-Help families. Therefore, all costs associated with the oversight and management of the Self-Help program are charged to Fund 70.

Self-Help Construction Trust Fund (Fund 90)

Fund 90 is a trust account used to account for the Self-Help construction costs for each family. Costs incurred in excess of budget are either reimbursed by Rural Economic and Community Development Services (RECDS), charged to the individual family responsible for the cost overrun or absorbed by RCHDC.

Property and Equipment

Property and equipment are valued at acquisition cost. Major additions are capitalized as they are placed in service, and minor improvements, which do not extend the useful life of the asset, are expensed in the period incurred. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets, which range from five to forty years.

Cash and Cash Equivalents

For purposes of the statements of cash flows, RCHDC considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents as of October 31, 2008.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
OCTOBER 31, 2008

**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
(Continued)

Cash balances in banks are insured up to \$250,000 from October 3, 2008 through December 31, 2013 by the Federal Deposit Insurance Corporation (FDIC). As of October 31, 2008, RCHDC's Funds, Owned Projects and Controlled Projects and Entities held cash in banks in excess of amounts insured by the FDIC. The excess funds totaled \$1,957,520. The banks holding these excess funds have pledged eligible pooled securities equal to or greater than the uninsured amounts.

Grants

RCHDC receives various grants to assist with the development of specific projects and programs. Capital grants and expendable grants are received from NeighborWorks America, a sponsoring organization of RCHDC. These funds are used to assist with the development of low-income housing projects, improvements in management and planning of new programs and projects for the benefit of low-income families and seniors. The NeighborWorks America grant receipts and related expenditures are reported in the supplementary information.

Grant Liens

RCHDC regularly receives funds from various governmental or non-profit agencies in the form of non-interest bearing mortgages secured by deeds of trust related to the development of affordable housing, subject to regulatory agreements or other restrictions that require the properties to remain affordable to low-income residents for extended periods of time. RCHDC records such advances as long-term liabilities at their face amounts until the affordability restrictions have been fully satisfied. Upon full satisfaction of the affordability restrictions and the reconveyance of the deeds of trust by the granting agencies, the face amount of these liens are reported as grant income.

Development Costs

Development costs are recorded on a site-specific basis. Development costs include all expenditures necessary to complete a project including but not limited to the purchase price of land, escrow and closing costs, predevelopment costs, legal and other consulting fees, architecture and engineering costs, entitlement costs, governmental fees and permits, construction and supervision costs, and interest costs during the development process. Development costs are capitalized as construction in process until the completed project is placed in service, at which time construction in process is reclassified to land and buildings subject to depreciation, for reporting purposes.

Income Taxes

RCHDC and its controlled corporations are exempt from Federal and California income taxes because they are organized as a not-for-profit corporations exempt under Federal and California Code Sections 501(c)(3) and 23701(d), respectively.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
OCTOBER 31, 2008

**NOTE 1.**      ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

**NOTE 2**      NOTES RECEIVABLE

In assisting eligible individuals and facilitating the development or rehabilitation of low-income multi-family housing, RCHDC has provided assistance in the form of purchase money loans, which are secured by junior deeds of trust on real estate. Terms vary, but generally fall into one of the following categories:

Fund 21:

1. Loans are for a period of 30 years accruing interest at 4% and do not require repayment until they mature or the homeowner sells the property.
2. Loans are for a period of 30 years accruing interest at 4% to 5% per annum. Monthly interest and principal payments are required beginning in the sixth year until the loan is fully amortized at the end of the 30 year term or prepaid in accordance with its terms.
3. Fund 21 has \$70,000 of notes receivable due from CC Seabreeze, L.P. as well as \$85,000 of notes receivable due from CC Seagull Villas, L.P. The funds were loaned to these two partnerships for the rehabilitation of three low-income housing apartments in Crescent City. The loans are secured and do not accrue interest and are due on May 31, 2066, and September 30, 2066, respectively. Additionally, Fund 21 advanced \$123,700 to CC Seagull Villas, L.P. for the rehabilitation of Seagull Villa Apartments from funds that RCHDC borrowed on a line of credit from Local Initiatives Support Corporation (LISC). CC Seabreeze, L.P. and CC Seagull Villas, L.P. are related parties to RCHDC.

Fund 10:

1. Loans aggregating \$258,000 at October 31, 2008, with 30 year terms were made to homeowners from Fund 10. The loans bear no interest during the first ten years and accrue 3% simple interest thereafter for the next twenty years. Monthly payments of principal and interest commence in the sixteenth year such that all outstanding principal and accrued interest is fully amortized by the end of the 30 year term. The loans are secured by trust deeds on the properties.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 OCTOBER 31, 2008

**NOTE 2**      NOTES RECEIVABLE (Continued)

2. Loans aggregating \$247,731 at October 31, 2008, with 30 year terms were made to homeowners from Fund 10. The terms of these loans give RCHDC a share in the appreciation of the affordable housing that they help finance. The loans do not bear interest and require no payments unless the properties subject to the liens are sold prior to their maturity dates. The loans are secured by trust deeds on the properties. RCHDC's share of appreciation is reduced by 5% per year beginning in the eleventh year of each loan such that there shall be no amounts due to RCHDC provided the properties are held for the full 30 year terms of the loans. RCHDC's policy is to provide a valuation allowance equal to the face amount on these notes since the present value of the notes cannot be readily determined.

**NOTE 3.**      FIXED ASSETS

Fixed assets, net of accumulated depreciation, consisted of the following at October 31, 2008:

	Beginning Balance	Additions	Deductions	Ending Balance
Land and Improvements	\$ 3,383,110	\$ 493,371	\$ -	\$ 3,876,481
Building and Improvements	26,532,419	13,264,507	-	39,796,926
Office Furniture and Equipment	932,686	19,065	-	951,751
Total Fixed Assets	30,848,215	13,776,943	-	44,625,158
Accumulated Depreciation	(11,962,773)	(1,078,799)	-	(13,041,572)
Total Fixed Assets, Net	<u>\$ 18,885,442</u>	<u>\$ 12,698,144</u>	<u>\$ -</u>	<u>\$ 31,583,586</u>

**NOTE 4.**      LONG-TERM DEBT

Long-term debt consists of the following at October 31, 2008:

	Current	Long-Term	Total
<b>Corporate Fund (Fund 10)</b>			
United States Department of Agriculture, Rural Development Mortgage for \$750,000 at 4.375% annual interest secured by RCHDC's principal offices on Leslie Street in Ukiah. Payments of principal and interest of \$3,315 monthly for forty years, due May 18, 2044.	<u>\$ 8,622</u>	<u>\$ 707,491</u>	<u>\$ 716,113</u>



RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
OCTOBER 31, 2008

**NOTE 4. LONG-TERM DEBT (Continued)**

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<b>Revolving Development Fund (Fund 21)</b>			
Redevelopment Agency, City of Ukiah loan requiring an annual payment of \$500, payable through September 1, 2032. This note is unsecured and is non-interest bearing.	\$ 500	\$ 21,500	\$ 22,000
Redevelopment Agency, City of Ukiah loan to be repaid when primary financing is obtained. This note is unsecured and is non-interest bearing.	-	18,000	18,000
City of Ukiah loan originally due on December 31, 1999, including simple interest at 3%. This note is unsecured. This note has been extended by the city until called.	-	115,200	115,200
Redevelopment Agency, City of Ukiah loan originally due on September 26, 1999, including simple interest at 3%. This note is unsecured. This note has been extended by the city until called.	-	36,500	36,500
California Department of Housing and Community Development (HCD) - Gibson Street, Due 7/21/2032 Contract #98-HOME-0237, 7% interest.	-	37,941	37,941
Local Initiatives Support Corporation (LISC) advance in the amount of \$123,700 at 6% interest for RCHDC to use for Seagull Villa Apartments rehabilitation pursuant to a Line of Credit Agreement dated June 1, 2006. This advance together with accrued interest is to be repaid upon the earlier of two years from the date of the advance or upon the closing of the permanent financing for Seagull Villa Apartments. This note is unsecured. This note has been extended.	123,700	-	123,700
California Department of Housing and Community Development predevelopment loan secured by deed of trust on the Lake Mendocino Drive property. The note is in the amount of \$560,000 at 3% was originally due March 1, 2004. The note has been extended to lot sale dates.	77,241	482,759	560,000
California Department of Housing and Community Development, CalHOME predevelopment loan secured by deed of trust on the Lake Mendocino Drive property. The note is in the amount of \$277,500 at 0% interest originally due February 25, 2005. The note has been extended to lot sale dates. The note converts to a grant upon sale of lots to families.	38,276	239,224	277,500

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION  
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**NOTE 4. LONG-TERM DEBT (Continued)**

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
Savings Bank of Mendocino County loan for land development costs associated with the Lake Mendicino Drive Self-Help property in the maximum amount of \$1,500,000 at 7% interest. Interest is payable on the loan monthly in arrears and all unpaid principal and interest was originally due on or before July 21, 2009. This note is secured. This note has been extended.	\$ -	\$ 547,849	\$ 547,849
California Department of Housing and Community Development - N. State Street Self-Help loan of \$800,000 (Contract #03-PDL-34), originally due June 30, 2008, bearing 3% interest. This note is secured by a deed of trust. The note has been extended to August 31, 2010.	-	800,000	800,000
Savings Bank of Mendocino County - \$1,829,520 promissory note secured by property at Brush Street originally due October 1, 2007. Interest is fixed at 3.5% and is payable monthly. \$484,935 was paid down during the fiscal year ended October 31, 2008 from the \$500,000 Neighbor Works loan. This note has been extended to September 15, 2009.	1,334,585	-	1,334,585
Neighborworks Capital Corporation loan in the amount of \$500,000 for Orr Creek Commons (Brush Street property) with interest at 5% per annum payable interest only at the end of each quarter in arrears. All unpaid principal and interest is due on or before March 31, 2011. This note is secured.		500,000	500,000
California Department of Housing and Community Development unsecured note dated August 11, 2008, in the amount of \$100,000 for predevelopment costs related to Orr Creek Commons in the City of Ukiah. The note accrues simple interest of 3% and is repayable on or before July 31, 2010.	-	100,000	100,000
Lake County Redevelopment Agency note dated November 1, 2004, not to exceed \$250,000, secured by deed of trust on Collier Street property. The note accrues simple interest at 2%. No payments or interest are due as long as the maker is not in default of an affordable housing covenant. After 10 years and each succeeding 5 years, 10% of the principal shall be reduced until the end of the 55 year term of the note.	-	250,000	250,000

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION  
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**NOTE 4. LONG-TERM DEBT (Continued)**

	Current	Long-Term	Total
Rural Community Assistance Corporation promissory note, not to exceed \$500,000 bearing 5% interest with principal and accrued interest originally due on September 1, 2008. This note has been extended from September 1, 2008 to September 1, 2010, and the interest rate has been increased to 6.25% from September 1, 2008 to September 1, 2010. This note is secured.	\$ -	\$ 306,786	\$ 306,786
Neighborworks Capital Corporation note in the amount of \$300,000, secured by a deed of trust on the Lake Mendocino Drive property bearing 5% interest with all unpaid principal and accrued interest originally due September 3, 2008. This note has been extended.	-	300,000	300,000
Savings Bank of Mendocino County promissory note secured by the Lake Mendocino Drive property with variable interest starting at 5.5%, payable monthly in arrears. The original note was in the amount of \$352,000. All unpaid principal and interest was originally due on or before April 4, 2008. This loan was extended and rolled into a construction loan during the fiscal year ended October 31, 2009.	53,737	-	53,737
Development Fund Totals	1,628,039	3,755,759	5,383,798
Fund Totals	1,636,661	4,463,250	6,099,911
<b>Owned Projects</b>			
<b>Creekside Village</b> is financed with a mortgage note of \$1,952,900 with the United States Department of Housing and Urban Development (HUD), under Section 202 of the National Housing Act of 1959. The mortgage note bears interest at the rate of 9.25% per annum and is being repaid in 480 equal monthly installments of principal and interest of \$15,441 payable through January 1, 2024. This note is secured.	47,431	1,464,306	1,511,737
<b>Cypress Ridge</b> is financed with two mortgage notes of \$1,500,000 and \$50,000, totaling \$1,550,000, with the United States Department of Agriculture, Farmers Home Administration (FmHA) under Section 515 of the National Housing Act of 1959. The mortgage note bears interest at the rate of 9.0% per annum, payable in 588 equal monthly installments (49 years) of principal and interest of \$11,780 through November 12, 2029. In addition, there is an interest subsidy from Rural Development associated with these mortgages that reduces the effective interest rate to 7.0%. The subsidy is not recorded on the Project's books as income or expense and reduces the actual monthly payments by RCHDC to \$9,362. This note is secured.	27,760	1,194,290	1,222,050

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION  
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**NOTE 4. LONG-TERM DEBT (Continued)**

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<p><b>Cypress Ridge</b> is also financed with a note from the City of Fort Bragg for \$50,000 that accrues interest at 3 %. Principal and Interest shall be due and payable on or before March 1, 2056. This note is secured.</p>	\$ -	\$ 50,000	\$ 50,000
<p><b>Cypress Ridge</b> is also financed with a mortgage note from the California Department of Housing and Community Development dated July 14, 2004 for a maximum amount of \$983,026 for the rehabilitation of Cypress Ridge Apartments. The note accrues simple interest of 3% and requires repayment from residual receipts commencing the last day of the initial operating year following the completion of rehabilitation. The unpaid principal and accrued interest are due in full on or before the 55th anniversary of the note. This note is secured.</p>	-	549,569	549,569
<p><b>Highlands Village</b> is financed with a mortgage note of \$1,675,900 with HUD, under Section 202 of the National Housing Act of 1959. The mortgage note bears interest at the rate of 8.5% per annum and is being repaid in 480 equal monthly installments of principal and interest of \$12,285 payable through June 1, 2021. This note is secured.</p>	52,436	1,088,815	1,141,251
<p><b>Holden Street</b> is financed with a mortgage note of \$293,000 with HUD, under Section 202 of the National Housing Act of 1959. The mortgage note bears interest at the rate of 9.25% per annum and is being repaid in 454 equal monthly installments of principal and interest of \$2,334 payable through October 1, 2020. This note is secured.</p>	9,774	191,867	201,641
<p><b>Holly Heights I</b> is financed with two mortgage notes of \$125,000 and \$670,000, totaling \$795,000, with FmHA under Section 515 of the National Housing Act of 1959. The mortgage notes bear interest at the rate of 8.0% per annum, payable in 468 equal monthly installments (39 years) of principal and interest of \$5,550 through October 1, 2016. In addition, there is an interest subsidy from Rural Development associated with these mortgages that reduces the effective interest rate to 6.0%. The subsidy is not recorded on the Project's books as income or expense and reduces the actual monthly payments by RCHDC to \$4,405. This note is secured.</p>	35,005	277,206	312,211

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION  
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**NOTE 4. LONG-TERM DEBT (Continued)**

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<p><b>Holly Heights I</b> also received with a secured HCD/HOME note from the California Department of Housing and Community Development in the amount of \$238,736. The note bears simple interest at the rate of 3%. Annual payments in January of each year are required equal to the lesser of Residual Receipts as defined or the total unpaid accrued interest. All unpaid principal and interest are due January 31, 2031.</p>	\$ -	\$ 238,636	\$ 238,636
<p><b>Holly Heights II</b> is financed with two mortgage notes of \$663,631 and \$105,726, totaling \$770,357, with FmHA under Section 515 of the National Housing Act of 1959. The mortgage notes bear interest at the rate of 11.875% per annum, payable in 548 equal monthly installments of principal and interest of \$7,658 through December 1, 2034. In addition, there is an interest subsidy from Rural Development associated with these mortgages that reduces the effective interest rate to 1.0%. The subsidy is not recorded on the Project's books as income or expense and reduces the actual monthly payments by RCHDC to \$1,752. This note is secured.</p>	4,491	734,229	738,720
<p><b>Holly Heights II</b> also received financing with a secured HCD/HOME note from the California Department of Housing and Community Development in the amount \$179,028. The note bears simple interest at the rate of 3%. Annual payments in January of each year are required equal to the lesser of Residual Receipts as defined or the total unpaid accrued interest. All unpaid principal and interest are due January 31, 2031.</p>	-	178,928	178,928
<p><b>McCarty Manor</b> is financed with a mortgage note of \$1,708,500 with FmHA under Section 515 of the National Housing Act of 1959. The mortgage note bears interest at the rate of 10.75% per annum, payable in 588 equal monthly installments (49 years) of principal and interest of \$15,378 through October 1, 2032. In addition, there is an interest subsidy from Rural Development associated with this mortgage that reduces the effective interest rate to 9.75%. The subsidy is not recorded on the Project's books as income or expense and reduces the actual monthly payments by RCHDC to \$14,010. This note is secured.</p>	45,997	1,229,109	1,275,106
<p><b>Sunshine Manor</b> is financed with a mortgage note of \$1,112,400 with HUD, under Section 202 of the National Housing Act of 1959. The mortgage note bears interest at the rate of 6.875% per annum and is being repaid in 480 equal monthly installments of principal and interest of \$6,812 payable through October 1, 2019. This note is secured.</p>	39,691	589,958	629,649

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**NOTE 4. LONG-TERM DEBT (Continued)**

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<p><b>Walnut Village</b> is financed with a mortgage note of \$1,395,100 with HUD, under Section 202 of the National Housing Act of 1959. The mortgage note bears interest at the rate of 6.875% per annum and is being repaid in 480 equal monthly installments of principal and interest of \$8,543 payable through September 1, 2019. This note is secured.</p>	\$ 50,063	\$ 735,593	\$ 785,656
<p><b>Gibson Court 4</b> is financed with an Affordable Housing Program Direct Subsidy. The Agreement requires no payments or interest as long as the Project remains affordable for households with income at or below 50% of average median income. Provided the Project remains in compliance with the AHP conditions for the term of the lien, then repayment of these funds is not required. This note is secured.</p>	-	20,000	20,000
<p><b>McCloud Motel Apartments</b> is financed with a promissory note from the Housing Assistance Council. The note accrues interest at 5%. The entire balance of principal and accrued interest is due and payable December 31, 2009. The note is secured by a First Deed of Trust. This note is secured.</p>	-	799,747	799,747
<p><b>Oak Hill Apartments</b> is financed with three United States Department of Agriculture - Rural Development promissory notes in the aggregate amount of \$4,000,000 secured by deeds of trust on the Project. The notes, dated October 28, 2004, bear interest at the rate of 1%. Principle and interest payments of \$13,205 are made monthly. All amounts are due and payable on or before October 28, 2037. Funds were first drawn on these notes during the fiscal year ended October 31, 2005. The notes were fully funded as of January, 2009. This note is secured.</p>	119,099	3,871,396	3,990,495
<p><b>Oak Hill Apartments</b> is also Financed with a California Department of Housing and Community Development Home Investment Partnerships Program (HCD-HOME) promissory note for \$3,442,000 secured by the Project. The note accrues 3% simple interest and is due and payable June 1, 2060. Payments of principal and interest must be made from residual receipts as required by the Department under the terms of the Regulatory Agreement. This note is secured.</p>	-	3,412,907	3,412,907

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION  
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**NOTE 4. LONG-TERM DEBT (Continued)**

	Current	Long-Term	Total
<p><b>Oak Hill apartments</b> is also financed with a California Department of Housing and Community Development, Joe Serna Jr. Farmworker Housing Grant Program grant lien originated on January 30, 2002 in the amount of \$2,988,030, secured by deed of trust for a term of 40 years. No repayment is required as long as the Project remains in compliance with the terms of the grant lien.</p>	\$ -	\$ 2,988,000	\$ 2,988,000
<p><b>Oak Hill Apartments</b> is also financed with an Affordable Housing Program (AHP) Grant Lien from National Bank of the Redwoods in the amount of \$292,500. The Agreement provides for no payments of principal or interest as long as Oak Hill Apartments remains in compliance with the AHP grant lien terms until July 26, 2022. This note is secured.</p>	-	292,500	292,500
Owned Projects Totals	431,747	19,907,056	20,338,803
<b>Controlled Projects</b>			
<p><b>Bevins Court</b> is financed with a promissory note of \$100,000 from the County of Lake. The note matures in January of 2044, bears annual interest at the rate of 2.0%, and is to be repaid in 37 equal annual installments of principal and interest of \$4,235.75 payable in January of each year beginning January 15, 2008. Annual payments of interest and principal shall be made from “residual receipts” as determined by HUD or from the project's own funds at RCHDC's discretion. This note is secured.</p>	-	100,000	100,000
<p><b>Bevins Court</b> is also financed with a \$68,800 Affordable Housing Program Direct Subsidy. The Agreement requires no payments or interest as long as the Project remains affordable for households with income at or below 50% of average median income. Provided the Project remains in compliance with the AHP conditions for the term of the lien, then repayment of these funds is not required. This note is secured.</p>	-	68,800	68,800
<p><b>Bevins Court</b> is also financed with a Capital Advance Mortgage note of \$1,104,100 from HUD, under Section 811. The mortgage note bears no interest and repayment is not required as long as the housing remains available for qualifying persons with disabilities. The note matures May 1, 2041 and may not be prepaid without prior written approval of HUD. Provided that the Project remains available for disabled persons and remains in compliance with the regulatory agreement through its maturity, the note is not required to be repaid. This note is secured.</p>	-	1,104,101	1,104,101

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION  
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**NOTE 4. LONG-TERM DEBT (Continued)**

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<b>North Shore Villas</b> is financed with a mortgage note of \$1,488,800 with HUD, under Section 202 of the National Housing Act of 1959. The mortgage note bears interest at the rate of 8.375% per annum and is being repaid in 480 equal monthly installments of principal and interest of \$10,773 payable through October 1, 2031. This note is secured.	\$ 19,706	\$ 1,297,483	\$ 1,317,189
<b>Gibson Court</b> is financed with a \$60,000 Affordable Housing Program Direct Subsidy. The Agreement requires no payments of principal or interest as long as the Project remains affordable for households with income at or below 50% of average median income. Provided the Project remains in compliance with the AHP conditions for the term of the lien, then repayment of these funds is not required. This note is secured.	-	60,000	60,000
<b>Gibson Court</b> is also financed with a Capital Advance Mortgage note of \$752,400 from HUD, under Section 811. The mortgage note bears no interest and repayment is not required as long as the housing remains available for qualifying persons with disabilities. The note matures May 1, 2041 and may not be prepaid without prior written approval of HUD. Provided that the Project remains available for disabled persons and remains in compliance with the regulatory agreement through its maturity, the note is not required to be repaid. This note is secured.	-	752,400	752,400
<b>Gibson Court</b> is also financed with a promissory note of \$758,824 from California Department of Housing and Community Development Home Investment Partnerships Program (HOME). The note matures in May of 2031 and bears annual interest of 3%. Annual payments of interest and principal shall be made only from “residual receipts” approved by HUD for any particular year. No payments shall be required from this promissory note in the absence of residual receipts. This note is secured.	-	758,824	758,824
<b>Lakeview Apts.</b> is financed with a mortgage note of \$1,656,000 with HUD, under Section 202 of the National Housing Act of 1959. The mortgage note bears interest at the rate of 9.25% per annum and is being repaid in 480 equal monthly installments of principal and interest of \$13,093 payable through October 1, 2028. This note is secured.	25,971	1,403,571	1,429,542



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**NOTE 4. LONG-TERM DEBT (Continued)**

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<p><b>Jack Simpson Apts.</b> is financed with a mortgage note of \$1,619,200 with HUD, under Section 202 of the National Housing Act of 1959. The mortgage note bears interest at the rate of 9.0% per annum and is being repaid in 480 equal monthly installments of principal and interest of \$12,490 payable through August 1, 2032. This note is secured.</p>	\$ 18,435	\$ 1,450,358	\$ 1,468,793
<p><b>North Pine St. Apts.</b> is financed with a Capital Advance Mortgage note of \$706,000 with HUD under Section 202 of the National Housing Act of 1959. The mortgage note bears no interest and repayment is not required as long as the housing remains available for low-income seniors. The note matures September 1, 2041 and may not be prepaid without prior written approval of HUD. Provided that the Project remains available for low-income seniors and remains in compliance with the regulatory agreement through its maturity, the note is not required to be repaid. This note is secured.</p>	-	706,000	706,000
<p><b>North Pine St. Apts.</b> is also financed with a \$47,500 secured Affordable Housing Program Direct Subsidy. The Agreement requires no payments or interest as long as the Project remains affordable for households with income at or below 50% of average median income. Provided the Project remains in compliance with the AHP conditions for the term of the lien, then repayment of these funds is not required.</p>	-	47,500	47,500
<p><b>Oak Park Manor</b> is financed with a Capital Advance Mortgage note of \$1,733,300 with HUD, under Section 202 of the National Housing Act of 1959. The mortgage note bears no interest and repayment is not required as long as the housing remains available for low-income seniors. The note matures August 1, 2033 and may not be prepaid without prior written approval of the HUD. Provided that the Project remains available for low-income seniors and remains in compliance with the regulatory agreement through its maturity, the note is not required to be repaid. This note is secured.</p>	-	1,733,300	1,733,300
<p><b>Siskiyou Garden Apts.</b> is financed with a mortgage note of \$485,580 with a finance company. The mortgage note bears interest at the rate of 7% per annum and is being repaid in 210 equal monthly installments of principal and interest of \$4,007 payable through September 30, 2013. In addition, there is an interest subsidy from HUD associated with the mortgage that reduces the actual monthly payments to \$1,554. The interest subsidy is deducted monthly by the finance company directly from the contract payments. This note is secured.</p>	34,024	182,222	216,246

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**NOTE 4. LONG-TERM DEBT (Continued)**

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<p><b>Washington Court</b> is financed with a \$55,000 Affordable Housing Program Direct Subsidy. The Agreement requires no payments of principal or interest as long as the Project remains affordable for households with income at or below 50% of average median income. Provided the Project remains in compliance with the AHP conditions for the term of the lien, then repayment of these funds is not required. This note is secured.</p>	\$ -	\$ 55,000	\$ 55,000
<p><b>Washington Court</b> is also financed with a Capital Advance Mortgage note in the amount of \$924,000 with HUD under Section 202 of the National Housing Act of 1959. The mortgage note bears no interest and repayment is not required as long as the housing remains available for low-income seniors. The note matures August 2, 2041 and may not be prepaid without prior written approval of HUD. Provided that the Project remains available for low-income seniors and remains in compliance with the regulatory agreement through its maturity, the note is not required to be repaid. This note is secured.</p>	-	924,000	924,000
<p><b>Washington Court</b> is also financed with a promissory note of \$212,856 from California Department of Housing and Community Development Home Investment Partnerships Program (HOME). The note matures in August of 2031 with simple interest of 3%. Annual payments of interest and principal shall be made only from “residual receipts” approved by HUD for any particular year. No payments shall be required from this promissory note in the absence of residual receipts. This note is secured.</p>	-	202,720	202,720
<p><b>Lenore Street</b> is financed with a \$60,000 Affordable Housing Program Direct Subsidy. The agreement requires no payments of principal or interest as long as the Project remains affordable for households with income at or below 50% of average median income. Provided the Project remains in compliance with the AHP conditions for the term of the lien, then repayment of these funds is not required. This note is secured.</p>	-	60,000	60,000

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**NOTE 4. LONG-TERM DEBT (Continued)**

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<p><b>Lenore Street</b> is also financed with a Capital Advance Mortgage note of \$835,800 with HUD under Section 202 of the National Housing Act of 1959. The mortgage note bears no interest and repayment is not required as long as the housing remains available for low-income seniors. The note matures March 15, 2041 and may not be prepaid without prior written approval of HUD. Provided that the Project remains available for low-income seniors and remains in compliance with the regulatory agreement through its maturity, the note is not required to be repaid. This note is secured.</p>	\$ -	\$ 835,800	\$ 835,800
<p><b>Redwood Court</b> is financed with a mortgage note of \$1,854,944, with the United States Department of Agriculture, Farmers Home Administration (FmHA) under Section 515 of the National Housing Act of 1959. The mortgage note bears interest at the rate of 9.0% per annum, payable over 50 years in monthly installments of principal and interest of \$14,072 through July 2, 2037. This note is secured.</p>	13,684	1,722,091	1,735,775
<p><b>Redwood Court</b> is also financed with a second mortgage note of \$76,923 that was obtained from FmHA on January 23, 1992 for the purpose of landscaping and installing playground equipment. The mortgage note bears interest at the rate of 8.25% and is payable over 50 years in monthly installments of principal and interest of \$538 through February 1, 2042. In addition, there is an interest subsidy from FmHA associated with these first two mortgages that reduces the effective interest rate to 1.0%. The subsidy is not recorded on the project's books as income or expense and reduces the actual monthly payments to \$4,098. This note is secured.</p>	425	72,708	73,133
<p><b>Redwood Court</b> received an additional \$200,000 from a mortgage note secured by a deed of trust from the Fortuna Redevelopment Agency pursuant to a Promissory Note and Loan Agreement dated June 1, 2008. This Promissory Note bears interest at the rate of 3% per annum simple interest and is payable in full together with accrued and unpaid interest at its maturity on September 1, 2063. The terms of this loan include an affordability restriction on the units within the property by which the loan is secured that runs the full 55 year term of the loan. The proceeds from this loan were advanced to Pine Gardens 1 so that Pine Gardens 1 could acquire the limited partnership interest in the Partnership from Beech Villa Ltd. effective August 29, 2008.</p>	-	200,000	200,000

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**NOTE 4. LONG-TERM DEBT (Continued)**

	Current	Long-Term	Total
<p><b>Redwood Court</b> also recorded a deed of trust which secures a mortgage note in favor of the State of California Department of Housing and Community Development in the amount of \$3,025,800 on September 15, 2008, for the purpose of rehabilitating the Project. However, construction has not yet commenced so that none of the loan funds were advanced during 2008. The note bears interest at the rate of 3% per annum simple interest and is repayable in annual installments commencing on the last day of the Initial Operating Year pursuant to the Regulatory Agreement out of Residual Receipts.</p>	\$ -	\$ -	\$ -
<p><b>Clara Court LP</b> received a start-up loan from the Redevelopment Agency of the City of Ukiah in the amount of \$300,000 secured by the land on Clara Street bearing simple interest at 3% originally due on September 5, 2005. The note has been extended until permanent financing funds.</p>	-	300,000	300,000
<p><b>Clara Court LP</b> also received a start-up loan from the Redevelopment Agency of Mendocino County in the amount of \$249,000 secured by land on Clara Street payable when primary financing funds. The note bears no interest as long as the resulting housing is affordable to low-income families.</p>	-	249,000	249,000
<p>Controlled Projects Totals</p>	112,245	14,285,878	14,398,123
<p>Grand Totals</p>	\$ 2,180,653	\$ 38,656,184	\$ 40,836,837

Aggregate maturities required on the mortgages payable at October 31, 2008 are as follows:

Fiscal Year Ended October 31:	Funds	Owned	Controlled	Total
2009	\$ 1,636,661	\$ 431,747	\$ 112,245	\$ 2,180,653
2010	2,381,815	1,258,666	121,977	3,762,458
2011	509,909	488,275	133,406	1,131,590
2012	10,244	520,056	146,291	676,591
2013	10,764	547,995	177,420	736,179
Thereafter	1,550,518	17,092,064	13,706,784	32,349,366
Total	\$ 6,099,911	\$ 20,338,803	\$ 14,398,123	\$ 40,836,837

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION  
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**NOTE 5. COMMITMENTS AND CONTINGENCIES**

As described in Note 1, RCHDC controls the General Partner (G.P.) entities in four Limited Partnerships, which own a total of seven low-income apartment developments eligible for low income housing tax credits as follows:

<u>Controlled G.P. Entity</u>	<u>Limited Partnership</u>	<u>Apartment Developments</u>
Redwood Court Property Corporation	Redwood Court Property, A California Limited Partnership	Redwood Court Apts.
Pine Gardens I, Inc.	Orchard River Associates, L.P.	Orchard Manor Apts. Orchard Village Apts. River Gardens Apts.
CC Seabreeze, LLC *	CC Seabreeze, L.P.	Seabreeze Apts. Totem Villa Apts.
CC Seagull Villa, LLC *	CC Seagull Villa, L.P.	Seagull Villa Apts.

\*Pine Gardens I, Inc. is the sole member of CC Seabreeze, LLC and CC Seagull Villa, LLC.

These controlled entities have certain ongoing obligations with respect to the partnerships in which they are involved as follows:

- A) Redwood Court Property Corporation is the General Partner in Redwood Court Property, a limited partnership formed on July 1, 1987. Although most of the ongoing obligations of the General Partner have expired, it continues to fund modest amounts of negative cash flow related to the operations of the Redwood Court Apts. On August 29, 2008, Pine Gardens I, Inc., an RCHDC controlled entity, acquired the limited partnership interest in Redwood Court Property. Therefore, Redwood Court Property is now wholly owned by controlled entities of RCHDC, and has been consolidated for presentation in these financial statements.
- B) Pine Gardens I, Inc. has the following ongoing obligations related to Orchard River Associates, L.P. and the three apartment projects it owns:
  - i) Pine Gardens I, Inc., together with RCHDC, is required to maintain an aggregate net worth of not less than \$500,000.
  - ii) Pine Gardens I, Inc. is required to establish segregated Operating Reserve Accounts for each project as follows:
 

Orchard Manor Apts.	\$80,250
Orchard Village Apts.	\$70,500
River Gardens Apts.	\$67,000

To date these segregated Operating Reserve Accounts have not yet been established.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
OCTOBER 31, 2008

**NOTE 5.**     COMMITMENTS AND CONTINGENCIES (Continued)

- iii) Pine Gardens I, Inc. has guaranteed to fund the operating deficits of each project until each project has achieved a Debt Service Coverage Ratio of 1.15 to 1.00 for sixty (60) consecutive months up to an aggregate amount of \$788,925 after the segregated Operating Reserve Accounts have been exhausted.
  - iv) Pine Gardens I, Inc. is required to make capital contributions to the partnership to compensate the Limited Partner for any ongoing shortfall in the tax credits which are hereinafter expected to accrue for the benefit of the Limited Partnership.
  - v) Pine Gardens I, Inc. is required to make a capital contribution for the portion of the Deferred Developer Fee for each project that remains unpaid as of the end of the twelfth year following the completion of the rehabilitation of each project.
  - vi) Pine Gardens I, Inc. is required to purchase the Limited Partner's interest in the partnership for the total amount of capital contributions contributed by the Limited Partner plus any expenses incurred by the Limited Partner, based upon the occurrence of various specified events related to the failure of the projects to achieve the anticipated results. The management of the partnership believes that it is very unlikely that they will have any liability related to this obligation.
- C) CC Seabreeze, LLC (Seabreeze) and CC Seagull Villa, LLC (Seagull Villa) have the following ongoing obligations related to the respective partnerships in which they have an interest and the related projects that these partnerships own:
- i) Seabreeze and Seagull Villa have guaranteed to fund the operating deficits of each project until each project has achieved a Debt Service Coverage Ratio of 1.10 to 1.00 for three (3) consecutive years up to the following total amounts:

Seabreeze Apts. and Totem Villa Apts.	\$314,594
Seagull Villa Apts.	\$154,262
  - These obligations are required only after the Operating Reserve Target Amounts have been exhausted.
  - ii) Seabreeze and Seagull Villa are required to make capital contributions to the partnerships to compensate the Limited Partners for any ongoing shortfall in the tax credits which are hereinafter expected to accrue for the benefit of the Limited Partnerships.
  - iii) Seabreeze and Seagull Villa are required to make capital contributions for the portion of the Deferred Developer Fees for each project that remain unpaid as of the end of the twelfth year following the completion of the rehabilitation of each project.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 5. COMMITMENTS AND CONTINGENCIES** (Continued)

iv) Seabreeze and Seagull Villa are required to purchase the Limited Partners' interests in the partnerships for the total amount of capital contributions contributed by the Limited Partners plus \$50,000 plus any expenses incurred by the Limited Partners, based upon the occurrence of various specified events related to the failure of the projects to achieve the anticipated results. The management of the partnerships believe that it is very unlikely that they will have any liability related to this obligation.

**NOTE 6. FUNCTIONAL ALLOCATION OF EXPENSES**

Expenditures incurred in connection with RCHDC operations and expenditures made for corporate purposes have been summarized on a functional basis, as administrative services, in the Statement of Activities.

**NOTE 7. NEIGHBORWORKS AMERICA GRANTS**

During the fiscal year ended October 31, 2008, RCHDC received grant funds from Neighborworks America. The grants have been recognized in multiple funds and related corporations. The following provides a listing of the grants received.

<u>Grant Type</u>	<u>Project Name</u>	<u>Amount Received</u>	<u>Unrestricted</u>	<u>Permanently Restricted</u>
Capital	Clara Court Capital Grant	\$ 100,000	\$ -	\$ 100,000
Capital	Lakewood - Family loan funds	75,000	-	75,000
Expendable	Capacity Building Grant	75,000	75,000	-
Total Neighborworks America Grants Received		<u>\$ 250,000</u>	<u>\$ 75,000</u>	<u>\$ 175,000</u>

**NOTE 8. SELF-INSURANCE**

RCHDC's dental and vision insurance plans are funded through a restricted bank account established to provide medical benefits for eligible employees and their dependents. RCHDC makes monthly contribution to the account to cover expected expenses. RCHDC deposited contributions in the amount of \$24,606 to the account during the fiscal year ended October 31, 2008.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION  
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**NOTE 9. DEFINED CONTRIBUTION PENSION PLAN**

RCHDC has a 403(b) defined contribution pension plan covering all employees with at least one year and 1,000 hours of service. RCHDC makes a matching contribution to the plan each year, up to, but not to exceed 5% of employees' regular pay. Total contributions for the year ended October 31, 2008 amounted to \$28,144.

**NOTE 10. TRANSFER OF NET ASSETS**

During the fiscal year, RCHDC transferred net assets from Fund 20 to Fund 10 in the amount of \$8,253, equal to the principal reduction in the note payable, secured by RCHDC's offices, held in Fund 10 which is paid monthly by Fund 20.

**NOTE 11. BUSINESS COMBINATIONS**

On August 29, 2008, Pine Gardens, I, a controlled entity of RCHDC, acquired a 99% limited partnership interest in Redwood Court Property, a California Limited Partnership, in which Redwood Court Property Corporation, a controlled entity of RCHDC, is the 1% General Partner. Redwood Court Property owns and operates Redwood Court Apartments, a 50 unit low-income apartment Project for families located in Fortuna, California. This combination was accounted for using the purchase method of accounting resulting in a write-up of the Land and Buildings owned by Redwood Court Property in the amount of \$765,627 reflecting the purchase price paid for the 99% interest in the limited partnership acquired by Pine Gardens, I. The accompanying financial statements include operations for Redwood Court Property for the period from August 30, 2008 through October 31, 2008.

**NOTE 12. RESTATEMENT**

Beginning net assets were restated as follows by restriction:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net Assets, October 31, 2007	\$ 1,092,222	\$ 205,000	\$ 1,772,275	\$ 3,069,497
Neighborworks America Grant mis-coded	22,000	-	(22,000)	-
Cypress Developer Fee	15,000	-	-	15,000
Exclusion of CC Seabreeze LLC by error	37,296	-	-	37,296
Exclusion of CC Seagull Villa LLC by error	14,814	-	-	14,814
Net Restatement	89,110	-	(22,000)	67,110
Net Assets, November 1, 2007	<u>\$ 1,181,332</u>	<u>\$ 205,000</u>	<u>\$ 1,750,275</u>	<u>\$ 3,136,607</u>



RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
OCTOBER 31, 2008

**NOTE 12. RESTATEMENT (Continued)**

Beginning net assets were restated as follows by groupings as presented in the supplemental information section:

	<u>Funds</u>	<u>Owned Projects</u>	<u>Controlled Entities</u>	<u>Total</u>
Net Assets, October 31, 2007	\$ 3,425,883	\$ (605,582)	\$ 249,196	\$ 3,069,497
Restatement between Fund 21 & Cypress Ridge	(50,000)	50,000	-	-
Restatement between Fund 21 & Cypress Ridge	(74,811)	74,811	-	-
Restatement between Fund 21 & Clara Court LP	(50,000)	-	50,000	-
Restatement between Fund 21 & Clara Court LP	(2,060)	-	2,060	-
Cypress Developer Fee	15,000	-	-	15,000
Exclusion of CC Seabreeze LLC by error	-	-	37,296	37,296
Exclusion of CC Seagull Villa LLC by error	-	-	14,814	14,814
Net Restatement	<u>(161,871)</u>	<u>124,811</u>	<u>104,170</u>	<u>67,110</u>
Net Assets, November 1, 2007	<u>\$ 3,264,012</u>	<u>\$ (480,771)</u>	<u>\$ 353,366</u>	<u>\$ 3,136,607</u>

**NOTE 13. NET ASSETS**

Under SFAS No. 117, RCHDC reports its financial position and activities according to three classes of net assets; unrestricted, temporarily restricted and permanently restricted.

Temporarily restricted net assets at October 31, 2008 of \$290,000 consists of \$135,000 representing the estimated fair market value of land obtained from the County of Lake that was purchased for \$1 for use by Bevins Court Housing Corporation. The land is restricted for affordable housing in Lake County for a period of 40 years from the date of the grant. The remaining \$70,000 and \$85,000 of temporarily restricted net assets represents grants received during the fiscal years ended October 31, 2006 and 2008 from the City of Crescent City to be used for the rehabilitation of three low-income housing apartments in Crescent City, California. The terms of these grants require that the three low-income housing projects in Crescent City remain affordable for 55 years from the dates of the grants.

Permanently restricted net assets at October 31, 2008 consisted of the following:

NeighborWorks America	\$ 1,454,000
HOME	221,275
Cowell Foundation	<u>250,000</u>
Total Permanently Restricted Net Assets	<u>\$ 1,925,275</u>

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 14. BUSINESS CONDITIONS – OAK HILL APARTMENTS**

As of October 31, 2008, Oak Hill Apartments (the Project) completed its first full year of operations. In this regard, the Project did not generate sufficient cash flow to meet its obligations. Although RCHDC advanced \$10,000 so that the Project could meet its critical obligations to third parties, the Project was unable to fund any of the replacement reserve contributions required pursuant to the Project's loan agreements with USDA/RD, HCD/Home or HCD/Joe Serna, and the Project was unable to pay all of its expenses to RCHDC for Property Insurance, Management Fees and Laundry Contract obligations. Part of the reason for this shortfall in the operating cash flow of this Project relates to the fact that the Project was involved in leasing its vacant units for most of the year ended October 31, 2008. Therefore, revenue fell short of expectations, and the Rental Assistance Subsidy from USDA/RD was much less than anticipated due to the fact that Rental Assistance is only available to occupied units. Based upon the budget that has been prepared for the period covering the fiscal year ended October 31, 2009, management anticipates that the Project may be able to achieve a small positive cash flow for this subsequent period. However, the anticipated cash flow for the fiscal year ended October 31, 2009, is not expected to be adequate to make up for the significant shortfall that occurred during the year ended October 31, 2008. Cash flow for the period subsequent to October 31, 2008, through the date of our report, appears to be significantly less than the amount budgeted and has not been adequate to fund any of the required Replacement Reserves for this subsequent period as well.

**Management's Plan to Address the Business Conditions Issue**

There have been inherent difficulties in leasing up this farm worker housing project. Even though the certificate of occupancy was issued July 26, 2007, Oak Hill Apartments did not approach full occupancy until October 31, 2008. Certain project expenses such as direct site employee payroll and benefits, grounds maintenance and common area utilities remain the same whether the project is occupied or not. The revenue budgeted to cover these types of expenses is limited to the rental income. Additionally, the Kelseyville Water District required that the water remain turned on in all of the vacant units, creating unexpected expense for the project. In the current fiscal year to date (2008/2009), Oak Hill Apartments has consistently experienced only about 85% - 90% occupancy, which has just allowed the project to cover normal operating expenses. Management projected that the project would have adequate funds to open a Replacement Reserve account. However, it is now apparent that there will not be sufficient cash flow to fund the account to the full 2008/2009 requirement. RCHDC will propose a workout agreement to the Oak Hill Apartments regulatory agencies to make up for the under-funded reserve amount out of cash flow in future years.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
OCTOBER 31, 2008

**NOTE 14.**    BUSINESS CONDITIONS – OAK HILL APARTMENTS (Continued)

In the current year it has become apparent that many of the farm workers in residence at Oak Hill Apartments are seasonal workers, rather than permanent Lake County residents. It has become increasingly difficult to reach and identify permanent Lake County farm workers who qualify for residency at Oak Hill Apartments. Based on the results of our outreach efforts to recruit farm worker residents, it appears that the need for farm worker housing in Lake County has substantially decreased from November 2000, when the original Community Needs Assessment was completed during the planning process of this development. Based on that observation and after discussions with the lenders, Management is proceeding to update and expand the original Community Needs Assessment in Kelseyville. When the updated Community Needs Assessment is complete, Management intends to request a waiver for the farm worker occupancy requirements. There has been sustained interest by the non-farm worker population in residency at Oak Hill Apartments.

As owner, Rural Communities Housing Development Corporation is committed to making Oak Hill Apartments a viable project, providing affordable housing with a sustainable cash flow. To that end, if a waiver can be obtained from the Lenders so that a reasonable portion of the project could be rented to non farm workers, Management is confident Oak Hill Apartments would be able to meet all of its financial obligations, including the full funding of all required replacement reserve accounts.

**SUPPLEMENTAL INFORMATION SECTION**

**RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION**  
**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION**  
**OCTOBER 31, 2008**

ASSETS	Funds	Owned Projects	Controlled Entities	Consolidating Entries	Totals
<b>Current Assets:</b>					
Cash and cash equivalents	\$ 1,289,902	\$ 386,589	\$ 141,004	\$ -	\$ 1,817,495
Net tenant accounts receivable	1,918	6,904	1,996	-	10,818
Tenant assistance accounts receivable	-	32,465	12,138	-	44,603
Other accounts receivable	5,307	2,098	1,365	-	8,770
Due from owned projects	492,509	1,427	-	(493,936)	-
Due from controlled entities	627,436	-	218,007	(845,443)	-
Due from related parties	412,284	-	116,725	-	529,009
Prepaid expenses	16,107	93,584	35,030	-	144,721
<b>Total Current Assets</b>	<b>2,845,463</b>	<b>523,067</b>	<b>526,265</b>	<b>(1,339,379)</b>	<b>2,555,416</b>
<b>Deposits:</b>					
Tenant deposits held in trust	-	89,387	84,543	-	173,930
Tax and insurance impounds	-	96,222	102,699	-	198,921
Replacement reserve	-	1,301,417	650,977	-	1,952,394
Other reserves	-	778,364	-	-	778,364
Residual receipts reserve	-	88,275	384,579	-	472,854
Cash restricted for pension plan	23,046	-	-	-	23,046
Cash restricted for self-insurance plan	32,378	-	-	-	32,378
<b>Total Deposits</b>	<b>55,424</b>	<b>2,353,665</b>	<b>1,222,798</b>	<b>-</b>	<b>3,631,887</b>
Fixed Assets net of Accumulated Depreciation	912,995	17,585,689	13,084,902	-	31,583,586
<b>Other Assets:</b>					
Long-term notes receivable	1,007,855	-	-	-	1,007,855
Investment in affiliates	-	-	446,048	(330,731)	115,317
Land held for development	3,602,520	-	430,000	-	4,032,520
Development costs	3,414,789	759,635	855,632	-	5,030,056
<b>Total Other Assets</b>	<b>8,025,164</b>	<b>759,635</b>	<b>1,731,680</b>	<b>(330,731)</b>	<b>10,185,748</b>
<b>Total Assets</b>	<b>\$ 11,839,046</b>	<b>\$ 21,222,056</b>	<b>\$ 16,565,645</b>	<b>\$ (1,670,110)</b>	<b>\$ 47,956,637</b>
<b>LIABILITIES AND NET ASSETS (DEFICIT)</b>					
<b>Liabilities:</b>					
<b>Current Liabilities:</b>					
Checks issued in excess of deposits	\$ 1,366,512	\$ -	\$ -	\$ -	\$ 1,366,512
Accounts payable and accrued liabilities	385,129	77,928	68,146	-	531,203
Accrued interest payable	31,750	54,403	34,562	-	120,715
Due to funds	-	492,509	627,437	(1,119,946)	-
Due to owned properties	-	-	1,427	(1,427)	-
Due to controlled properties	-	-	218,007	(218,007)	-
Due to related parties	453,110	-	7,412	-	460,522
Current portion mortgages and notes payable	1,636,661	431,747	112,245	-	2,180,653
Deferred revenue	24,255	7,775	6,816	-	38,846
<b>Total Current Liabilities</b>	<b>3,897,417</b>	<b>1,064,362</b>	<b>1,076,052</b>	<b>(1,339,380)</b>	<b>4,698,451</b>
<b>Long-Term Liabilities:</b>					
Tenant deposits held in trust	6,798	96,964	84,543	-	188,305
CDC investment in Lake Mendocino Drive	471,000	-	-	-	471,000
Accrued interest payable	287,289	504,467	266,761	-	1,058,517
Mortgages and notes payable	4,463,250	19,907,056	14,285,878	-	38,656,184
<b>Total Long-Term Liabilities</b>	<b>5,228,337</b>	<b>20,508,487</b>	<b>14,637,182</b>	<b>-</b>	<b>40,374,006</b>
<b>Total Liabilities</b>	<b>9,125,754</b>	<b>21,572,849</b>	<b>15,713,234</b>	<b>(1,339,380)</b>	<b>45,072,457</b>
<b>Net Assets (Deficit):</b>					
Unrestricted	1,507,017	(760,793)	253,411	(330,730)	668,905
Temporarily restricted	155,000	-	135,000	-	290,000
Permanently restricted	1,051,275	410,000	464,000	-	1,925,275
<b>Total Net Assets (Deficit)</b>	<b>2,713,292</b>	<b>(350,793)</b>	<b>852,411</b>	<b>(330,730)</b>	<b>2,884,180</b>
<b>Total Liabilities and Net Assets (Deficit)</b>	<b>\$ 11,839,046</b>	<b>\$ 21,222,056</b>	<b>\$ 16,565,645</b>	<b>\$ (1,670,110)</b>	<b>\$ 47,956,637</b>

**RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION**  
**CONSOLIDATING SCHEDULE OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED OCTOBER 31, 2008**

REVENUES	Funds	Owned Projects	Controlled Entities	Consolidating Entries	Total
Net tenant rents	\$ -	\$ 922,150	\$ 671,036	\$ -	\$ 1,593,186
Tenant assistance payments	-	1,848,372	1,043,241	-	2,891,613
Other rents	104,081	-	-	-	104,081
Grant income	489,873	-	220,750	-	710,623
Interest income	7,083	36,452	7,296	-	50,831
Management fees and reimbursements	603,324	-	59,225	(403,033)	259,516
Operational revenue	335,893	14,625	9,232	-	359,750
Other revenue	118,032	129,227	151,730	-	398,989
<b>Total Revenues</b>	<b>1,658,286</b>	<b>2,950,826</b>	<b>2,162,510</b>	<b>(403,033)</b>	<b>6,368,589</b>
<b>EXPENSES</b>					
Administrative services	1,286,635	363,989	297,452	-	1,948,076
Management Fees	-	209,739	156,034	(365,773)	-
Bookkeeping and Accounting Fees	-	16,560	20,700	(37,260)	-
Utilities	31,099	213,127	257,818	-	502,044
Operating and maintenance:					
Operating accounts	128,098	557,584	307,644	-	993,326
Replacement reserve and residual receipts accounts	-	89,224	9,103	-	98,327
Taxes and insurance	234,294	219,548	152,891	-	606,733
Interest expense	37,308	923,712	428,349	-	1,389,369
Amortization and depreciation	46,245	672,692	364,204	-	1,083,141
<b>Total Expenses</b>	<b>1,763,679</b>	<b>3,266,175</b>	<b>1,994,195</b>	<b>(403,033)</b>	<b>6,621,016</b>
Change In Net Assets	(105,393)	(315,349)	168,315	-	(252,427)
Transfer of Net Assets	(445,327)	445,327	-	-	-
Write up of assets on purchase	-	-	330,730	(330,730)	-
Net Assets Deficit), Beginning	3,264,012	(480,771)	353,366	-	3,136,607
<b>Net Assets (Deficit), Ending</b>	<b>\$ 2,713,292</b>	<b>\$ (350,793)</b>	<b>\$ 852,411</b>	<b>\$ (330,730)</b>	<b>\$ 2,884,180</b>

**RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION**  
**CONSOLIDATING SCHEDULE OF CASH FLOWS**  
**FOR THE FISCAL YEAR ENDED OCTOBER 31, 2008**

CASH FLOWS FROM OPERATING ACTIVITIES	Funds	Owned Projects	Controlled Entities	Consolidating Entries	Totals
Change in Total Net Assets from Operations	\$ (105,393)	\$ (315,349)	\$ 168,315	\$ -	\$ (252,427)
Adjustments to Reconcile Changes in Net Asset to Net cash Provided by (Used in) Operating Activities:					
Operating contribution	(15,621)	15,621	-	-	-
Amortization and Depreciation	46,245	672,692	364,204	-	1,083,141
Decrease (Increase) in:					
Net tenant accounts receivable	185	(5,059)	926	-	(3,948)
Tenant assistance accounts receivable	-	(21,923)	2,002	-	(19,921)
Other accounts receivable	(3,721)	1,419	(141)	-	(2,443)
Due from funds	-	99	-	(99)	-
Due from owned properties	(319,214)	(239)	-	319,453	-
Due from controlled properties	(409,557)	-	(218,007)	627,564	-
Prepaid expenses	19,301	(21,012)	10,421	-	8,710
Increase (Decrease) in:					
Checks issued in excess of deposits	568,178	-	-	-	568,178
Accounts payable and accrued liabilities	(76,580)	21,248	18,932	-	(36,400)
Accrued interest payable	(108,630)	5,823	(2,769)	-	(105,576)
Due to funds	-	319,214	446,967	(766,181)	-
Due to Owned Properties	(99)	(1,188)	(35,983)	37,270	-
Due to controlled properties	-	-	218,007	(218,007)	-
Deferred revenue	(1)	4,906	4,529	-	9,434
Net Cash Provided by (Used in) Operating Activities	(404,907)	676,252	977,403	-	1,248,748
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Decrease (Increase) in:					
Tenant deposits held in trust	-	5,199	-	-	5,199
Tax and insurance impounds	-	52,077	5,867	-	57,944
Replacement reserve	-	(41,397)	(140,419)	-	(181,816)
Capital investment	-	-	16,193	-	16,193
Other reserves	-	(129,905)	-	-	(129,905)
Residual receipts reserve	-	(15,547)	(96,524)	-	(112,071)
Cash restricted for pension plan	6,659	-	-	-	6,659
Cash restricted for self-insurance plan	(7,627)	-	-	-	(7,627)
Cash restricted until completion of project	49,974	-	-	-	49,974
Purchase of fixed assets	(16,661)	(11,669,192)	(2,091,092)	-	(13,776,945)
Decrease (Increase) in due from related parties	544,337	-	(47,030)	-	497,307
Increase in long-term notes receivable	(204,075)	-	-	-	(204,075)
Increase in investment in affiliates	-	-	(297,689)	330,730	33,041
Increase in development costs	8,995,824	(199,894)	(151,924)	-	8,644,006
Transfer of land held for development	555,000	-	(430,000)	-	125,000
Contribution	(429,706)	429,706	-	-	-
Write up of assets on purchase	-	-	330,730	(330,730)	-
Net Cash Provided by (Used in) Investing Activities	9,493,725	(11,568,953)	(2,901,888)	-	(4,977,116)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from mortgages and notes payable	2,613,231	1,138,000	2,008,908	-	5,760,139
Increase (Decrease) in due to related parties	75,468	-	7,412	-	82,880
Increase in long-term accrued interest	129,075	416,628	33,135	-	578,838
Increase in CDC investment in Lake Mendocino Drive	471,000	-	-	-	471,000
Increase (Decrease) in construction contracts payable	(1,572,607)	-	-	-	(1,572,607)
Transferred mortgages and notes payable	(10,575,372)	10,026,372	549,000	-	-
Principal payments on mortgages and notes payable	(503,689)	(579,499)	(636,839)	-	(1,720,027)
Net Cash Provided by (Used in) Financing Activities	(9,362,894)	11,001,501	1,961,616	-	3,600,223
Net Increase (Decrease) in Cash and Cash Equivalents	(274,076)	108,800	37,131	-	(128,145)
Cash and Cash Equivalents, Beginning	1,563,978	277,789	103,873	-	1,945,640
Cash and Cash Equivalents, Ending	\$ 1,289,902	\$ 386,589	\$ 141,004	\$ -	\$ 1,817,495
Amounts Paid for Interest	\$ 713,426	\$ 501,261	\$ 397,983	\$ -	\$ 1,612,670
Amounts Paid for Income Tax	\$ -	\$ -	\$ -	\$ -	\$ -

**RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION**  
**CONSOLIDATING FUND SCHEDULE OF FINANCIAL POSITION**  
**FOR THE FISCAL YEAR ENDED OCTOBER 31, 2008**

ASSETS	Funds						Consolidating Entries	Totals	
	10	20	21	22	23	70			90
<b>Current Assets:</b>									
Cash and cash equivalents	\$ 102,556	\$ 3,238	\$ 607,351	\$ 573,872	\$ -	\$ -	\$ 2,885	\$ -	\$ 1,289,902
Net tenant accounts receivable	-	1,918	-	-	-	-	-	-	1,918
Other accounts receivable	-	2,611	22	2,674	-	-	-	-	5,307
Due from fund 10	-	300	-	-	-	-	-	(300)	-
Due from Fund 21	-	9,918	-	-	-	-	-	(9,918)	-
Due from Fund 22	-	497	-	-	-	-	-	(497)	-
Due from Fund 23	-	10,958	-	-	-	-	-	(10,958)	-
Due from Fund 70	-	3,386	-	-	-	-	-	(3,386)	-
Due from owned projects	30,000	36,773	423,857	1,879	-	-	-	-	492,509
Due from controlled entities	83,883	96,692	431,069	15,792	-	-	-	-	627,436
Due from related parties	-	52,328	359,956	-	-	-	-	-	412,284
Prepaid expenses	-	15,401	706	-	-	-	-	-	16,107
<b>Total Current Assets</b>	<b>216,439</b>	<b>234,020</b>	<b>1,822,961</b>	<b>594,217</b>	<b>-</b>	<b>-</b>	<b>2,885</b>	<b>(25,059)</b>	<b>2,845,463</b>
<b>Deposits:</b>									
Cash restricted for pension plan	23,046	-	-	-	-	-	-	-	23,046
Cash restricted for self-insurance plan	32,378	-	-	-	-	-	-	-	32,378
<b>Total Deposits</b>	<b>55,424</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>55,424</b>
<b>Fixed Assets net of Accumulated Depreciation</b>	<b>912,995</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>912,995</b>
<b>Other Assets:</b>									
Long-term notes receivable	258,000	-	748,867	-	-	988	-	-	1,007,855
Land held for development	-	-	3,602,520	-	-	-	-	-	3,602,520
Development costs	-	-	3,414,789	-	-	-	-	-	3,414,789
<b>Total Other Assets</b>	<b>258,000</b>	<b>-</b>	<b>7,766,176</b>	<b>-</b>	<b>-</b>	<b>988</b>	<b>-</b>	<b>-</b>	<b>8,025,164</b>
<b>Total Assets</b>	<b>\$ 1,442,858</b>	<b>\$ 234,020</b>	<b>\$ 9,589,137</b>	<b>\$ 594,217</b>	<b>\$ -</b>	<b>\$ 988</b>	<b>\$ 2,885</b>	<b>\$ (25,059)</b>	<b>\$ 11,839,046</b>
<b>LIABILITIES AND NET ASSETS (DEFICIT)</b>									
<b>Liabilities:</b>									
<b>Current Liabilities:</b>									
Checks issued in excess of deposits	\$ -	\$ 970,190	\$ -	\$ -	\$ 180,334	\$ 215,988	\$ -	\$ -	\$ 1,366,512
Accounts payable and accrued liabilities	55,117	200,548	81,640	23,419	4,347	17,173	2,885	-	385,129
Accrued interest payable	-	-	31,750	-	-	-	-	-	31,750
Due to fund 20	300	-	9,918	10,958	497	3,386	-	(25,059)	-
Due to related parties	-	-	453,110	-	-	-	-	-	453,110
Current portion mortgages and notes payable	8,622	-	1,628,039	-	-	-	-	-	1,636,661
Deferred revenue	4,255	-	20,000	-	-	-	-	-	24,255
<b>Total Current Liabilities</b>	<b>68,294</b>	<b>1,170,738</b>	<b>2,224,457</b>	<b>34,377</b>	<b>185,178</b>	<b>236,547</b>	<b>2,885</b>	<b>(25,059)</b>	<b>3,897,417</b>
<b>Long-Term Liabilities:</b>									
Tenant deposits held in trust	6,798	-	-	-	-	-	-	-	6,798
CDC investment in Lake Mendocino Drive	-	-	471,000	-	-	-	-	-	471,000
Accrued interest payable	-	-	287,289	-	-	-	-	-	287,289
Mortgages and notes payable	707,491	-	3,755,759	-	-	-	-	-	4,463,250
<b>Total Long-Term Liabilities</b>	<b>714,289</b>	<b>-</b>	<b>4,514,048</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,228,337</b>
<b>Total Liabilities</b>	<b>782,583</b>	<b>1,170,738</b>	<b>6,738,505</b>	<b>34,377</b>	<b>185,178</b>	<b>236,547</b>	<b>2,885</b>	<b>(25,059)</b>	<b>9,125,754</b>
<b>Net Assets (Deficit):</b>									
Unrestricted	660,275	(936,718)	1,644,357	559,840	(185,178)	(235,559)	-	-	1,507,017
Temporarily restricted	-	-	155,000	-	-	-	-	-	155,000
Permanently restricted	-	-	1,051,275	-	-	-	-	-	1,051,275
<b>Total Net Assets (Deficit)</b>	<b>660,275</b>	<b>(936,718)</b>	<b>2,850,632</b>	<b>559,840</b>	<b>(185,178)</b>	<b>(235,559)</b>	<b>-</b>	<b>-</b>	<b>2,713,292</b>
<b>Total Liabilities and Net Assets (Deficit)</b>	<b>\$ 1,442,858</b>	<b>\$ 234,020</b>	<b>\$ 9,589,137</b>	<b>\$ 594,217</b>	<b>\$ -</b>	<b>\$ 988</b>	<b>\$ 2,885</b>	<b>\$ (25,059)</b>	<b>\$ 11,839,046</b>



**RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION  
CONSOLIDATING FUND SCHEDULE OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2008**

	Funds						Consolidating Entries	Total
	10	20	21	22	23	70		
<b>REVENUES</b>								
Other rents	\$ -	\$ 104,081	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 104,081
Grant income	-	120,000	324,873	-	45,000	-	-	489,873
Interest income	357	2,743	3,983	-	-	-	-	7,083
Management fees and reimbursements	-	43,402	-	559,922	-	-	-	603,324
Operational revenue	-	80,762	250,000	500	1,325	3,306	-	335,893
Other revenue	16,075	18,597	82,860	500	-	-	-	118,032
<b>Total Revenues</b>	<b>16,432</b>	<b>369,585</b>	<b>661,716</b>	<b>560,922</b>	<b>46,325</b>	<b>3,306</b>	<b>-</b>	<b>1,658,286</b>
<b>EXPENSES</b>								
Administrative services	-	602,138	283,727	316,797	14,221	69,752	-	1,286,635
Utilities	-	31,099	-	-	-	-	-	31,099
Operating and maintenance:								
Operating accounts	-	55,618	865	477	1,224	69,914	-	128,098
Taxes and insurance	-	92,466	39,660	44,115	3,229	54,824	-	234,294
Interest expense	-	31,527	5,781	-	-	-	-	37,308
Amortization and depreciation	46,245	-	-	-	-	-	-	46,245
<b>Total Expenses</b>	<b>46,245</b>	<b>812,848</b>	<b>330,033</b>	<b>361,389</b>	<b>18,674</b>	<b>194,490</b>	<b>-</b>	<b>1,763,679</b>
Change In Net Assets	(29,813)	(443,263)	331,683	199,533	27,651	(191,184)	-	(105,393)
Transfer of Net Assets	8,253	(8,253)	(445,327)	-	-	-	-	(445,327)
Net Assets (Deficit), Beginning	681,835	(485,202)	2,964,276	360,307	(212,829)	(44,375)	-	3,264,012
<b>Net Assets (Deficit), Ending</b>	<b>\$ 660,275</b>	<b>\$ (936,718)</b>	<b>\$ 2,850,632</b>	<b>\$ 559,840</b>	<b>\$ (185,178)</b>	<b>\$ (235,559)</b>	<b>\$ -</b>	<b>\$ 2,713,292</b>

**RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION**  
**CONSOLIDATING FUND SCHEDULE OF CASH FLOWS**  
**FOR THE FISCAL YEAR ENDED OCTOBER 31, 2008**

CASH FLOWS FROM OPERATING ACTIVITIES	Funds						Consolidating Entries	Total
	10	20	21	22	23	70		
Change in Total Net Assets from Operations	\$ (29,813)	\$ (443,263)	\$ 331,683	\$ 199,533	\$ 27,651	\$ (191,184)	\$ -	\$ (105,393)
Adjustments to Reconcile Changes in Net Asset to Net cash Provided by (Used in) Operating Activities:								
Transfer of net assets	-	-	(15,621)	-	-	-	-	(15,621)
Amortization and Depreciation	46,245	-	-	-	-	-	-	46,245
Decrease (Increase) in:								
Net tenant accounts receivable	-	185	-	-	-	-	-	185
Other accounts receivable	-	(2,168)	(22)	(1,531)	-	-	-	(3,721)
Due from fund 21	-	(9,918)	-	-	-	-	9,918	-
Due from Fund 22	-	(497)	-	-	-	-	-	497
Due from Fund 23	-	(10,958)	-	-	-	-	-	10,958
Due from Fund 70	-	(3,386)	-	-	-	-	-	3,386
Due from owned properties	(10,000)	49,195	(364,613)	6,204	-	-	-	(319,214)
Due from controlled properties	10,810	(45,149)	(360,722)	(14,496)	-	-	-	(409,557)
Prepaid expenses	-	(4,542)	16,539	1,656	143	5,505	-	19,301
Increase (Decrease) in:								
Checks issued in excess of deposits	-	411,429	-	-	(28,978)	185,727	-	568,178
Accounts payable and accrued liabilities	960	8,337	50,428	7,883	687	(2,446)	(142,429)	(76,580)
Accrued interest payable	-	-	(108,630)	-	-	-	-	(108,630)
Due to Fund 20	-	-	9,918	10,958	497	3,386	-	(24,759)
Due to Owned Properties	-	(99)	-	-	-	-	-	(99)
Deferred revenue	-	(1)	-	-	-	-	-	(1)
Net Cash Provided by (Used in) Operating Activities	18,202	(50,835)	(441,040)	210,207	-	988	(142,429)	(404,907)
CASH FLOWS FROM INVESTING ACTIVITIES								
Decrease (Increase) in:								
Cash restricted for pension plan	6,659	-	-	-	-	-	-	6,659
Cash restricted for self-insurance plan	(7,627)	-	-	-	-	-	-	(7,627)
Cash restricted until completion of project	-	-	49,974	-	-	-	-	49,974
Purchase of fixed assets	(16,661)	-	-	-	-	-	-	(16,661)
Decrease (Increase) in due from related parties	8,160	61,096	464,995	10,086	-	-	-	544,337
Increase in long-term notes receivable	-	-	(203,087)	-	-	(988)	-	(204,075)
Net Increase (Decrease) in development costs	-	-	8,995,824	-	-	-	-	8,995,824
Transfer of land held for development	-	-	555,000	-	-	-	-	555,000
Transfer of net assets	8,253	(8,253)	(429,706)	-	-	-	-	(429,706)
Net Cash Provided by (Used in) Investing Activities	(1,216)	52,843	9,433,000	10,086	-	(988)	-	9,493,725
CASH FLOWS FROM FINANCING ACTIVITIES								
Proceeds from mortgages and notes payable	-	-	2,613,231	-	-	-	-	2,613,231
Increase (Decrease) in due to related parties	-	-	75,517	(49)	-	-	-	75,468
Increase in long-term accrued interest	-	-	129,075	-	-	-	-	129,075
Increase in CDC investment in Lake Mendocino Drive	-	-	471,000	-	-	-	-	471,000
Increase (Decrease) in construction contracts payable	-	-	(1,572,607)	-	-	-	-	(1,572,607)
Transferred mortgages and notes payable	-	-	(10,575,372)	-	-	-	-	(10,575,372)
Principal payments on mortgages and notes payable	(8,254)	-	(495,435)	-	-	-	-	(503,689)
Net Cash Provided by (Used in) Financing Activities	(8,254)	-	(9,354,591)	(49)	-	-	-	(9,362,894)
Net Increase (Decrease) in Cash and Cash Equivalents	8,732	2,008	(362,631)	220,244	-	-	(142,429)	(274,076)
Cash and Cash Equivalents, Beginning	93,824	1,230	969,982	353,628	-	-	145,314	1,563,978
Cash and Cash Equivalents, Ending	\$ 102,556	\$ 3,238	\$ 607,351	\$ 573,872	\$ -	\$ -	\$ 2,885	\$ 1,289,902
Amounts Paid for Interest	\$ -	\$ 31,527	\$ 681,899	\$ -	\$ -	\$ -	\$ -	\$ 713,426
Amounts Paid for Income Tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

**RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**OCTOBER 31, 2008**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Expenditures			
		Funds	Owned Projects	Controlled Projects	Total
Federal Programs:					
U.S. Department of Agriculture:					
Farm Labor Housing Loans and Grants	10.405	\$ -	\$ 3,990,494	\$ -	\$ 3,990,494
Rural Rental Housing Loans (Sections 515 and 521)	10.415		3,548,087	1,808,908	5,356,995
Rural Self-Help Housing Technical Assistance (Section 523)	10.420	-	-	-	-
Rural Rental Assistance Payments	10.427	-	54,037	8,524	62,561
Total U.S. Department of Agriculture		-	7,538,581	1,808,908	9,347,489
U.S. Department of Housing and Urban Development:					
Mortgage Insurance For The Purchase or Refinancing of Existing Multifamily Housing Projects (Section 223(f)/207)	14.155	-	-	216,247	216,247
Supportive Housing For The Elderly (Section 202 Capital Advance)	14.157	-	4,068,292	8,414,625	12,482,917
Supportive Housing For Persons with Disabilities (Section 811 Capital Advance)	14.181	-	201,641	1,856,500	2,058,141
Section 8 Housing Assistance Payments Program (Pass-Through Contract Administrator)	14.195	-	1,709,204	1,034,717	2,743,921
Home Investment Partnerships Program (HOME) (Pass-Through California Department of Housing & Community Development)	14.239	-	4,380,040	961,544	5,341,584
Total U.S. Department of Housing and Urban Development		-	10,359,177	12,483,633	22,842,810
NeighborWorks America:					
Expendable Grants	14.000	75,000	-	-	75,000
Capital Grants	14.000	75,000	-	100,000	175,000
Total U.S. NeighborWorks America		150,000	-	100,000	250,000
Total Federal Awards Expended		\$ 150,000	\$ 17,897,758	\$ 14,392,541	\$ 32,440,299

**NOTE 1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Rural Communities Housing Development Corporation and its affiliates and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

OTHER INDEPENDENT AUDITOR'S REPORTS

## **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**

Board of Directors  
Rural Communities Housing Development Corporation  
Ukiah, California

We have audited the consolidated financial statements of Rural Communities Housing Development Corporation (a nonprofit organization) and its affiliates as of and for the year ended October 31, 2008, and have issued our report thereon dated September 3, 2009. 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.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization'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 the Project's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 organization'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 organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider item 2008-1 of the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above as material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2008-2, 2008-3 and 2008-4.

We noted certain matters that we reported to management of Rural Communities Housing Development Corporation in a separate letter dated September 3, 2009.

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the audit committee, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Robertson & Associates, CPAs*

Lakeport, California  
September 3, 2009

## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors  
Rural Communities Housing Development Corporation  
Ukiah, California

### Compliance

We have audited the compliance of Rural Communities Housing Development Corporation and its affiliates with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended October 31, 2008. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

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 Organization'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. Our audit does not provide a legal determination of the Organization's compliance with those requirements.

As described in items 2008-2, 2008-3 and 2008-4 in the accompanying schedule of findings and questioned costs, the Organization did not comply with requirements regarding the set aside of security deposits or replacement reserves for Oak Hill Apartments as required by USDA/RD, HCD – HOME and HCD – Joe Serna loan agreements as well as the set aside of surplus cash as required by the regulatory agreement for Bevins Court Apartments. Compliance with such requirements is necessary, in our opinion, for the Organization to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Organization complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended October 31, 2008. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2008-2, 2008-3 and 2008-4.

## Internal Control over Compliance

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Organization's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2008-2, 2008-3 and 2008-4 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We do not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

The Organization's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, Board of Directors, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Robertson & Associates, CPAs*

Lakeport, California  
September 3, 2009



AUDITOR'S FINDINGS AND QUESTIONED COSTS

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 OCTOBER 31, 2008

**Section I - Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued:	<i>unqualified</i>		
Internal control over financial reporting:			
Material weakness identified?	_____	Yes	_____ <b>X</b> _____
Control deficiency identified not considered to be material weaknesses?	<b>X</b> _____	Yes	_____ None
Noncompliance material to financial statements noted?	_____	Yes	_____ <b>X</b> _____

*Federal Awards*

Type of auditor's report issued on compliance for major programs:	<i>qualified</i>		
Internal control over financial reporting:			
Material weakness identified?	_____	Yes	_____ <b>X</b> _____
Control deficiency identified not considered to be material weaknesses?	<b>X</b> _____	Yes	_____ None
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<b>X</b> _____	Yes	_____ No

Identification of major program

CFDA Number	Name of Federal Program or Cluster
10.405	Farm Labor Housing Loans and Grants
10.415	Rural Rental Housing Loans (Sections 515 and 521)
14.157	Supportive Housing For The Elderly (Section 202 Capital Advance)
14.181	Supportive Housing For Persons with Disabilities (Section 811 Capital Advance)
14.195	Section 8 Housing Assistance Payments Program (Pass-Through Contract Administrator)
14.239	Home Investment Partnerships Program (HOME) (Pass-Through California Department of Housing & Community Development)

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000		
Auditee qualified as low-risk auditee?	<b>X</b> _____	Yes	_____ No

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION  
CURRENT YEAR FINDINGS  
OCTOBER 31, 2008

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Oak Hill Apartments – RURAL DEVELOPMENT PROJECT #04-017-868897735  
2008-1 Deficient Accounting Records**

Condition

The books and records prepared by the RCHDC for Oak Hill Apartments were not in adequate condition to prepare accurate financial statements which could be readily audited following the closing of the books for the period ended October 31, 2008.

Effect

A significant amount of additional accounting work was required before the audit of Oak Hill Apartments could be completed for the fiscal year ended October 31, 2008.

Cause

Turnover of senior staff members within RCHDC that owns and operates Oak Hill Apartments caused senior financial staff members to temporarily fulfill other responsibilities. Therefore, the accounting records requiring the involvement of these senior financial staff members fell significantly behind.

Criteria

Books and records should be updated and maintained in a manner that permits the generation of accurate financial statements which can be readily audited.

Recommendation

Senior financial staff members should be able to remain consistently committed to the accounting and financial aspects of the Company such that accurate financial statements can be generated which can be readily audited.

Project Response and Action Plan

Management is in agreement. However, the conditions encountered during the construction and lease up of Oak Hill Apartments were unusual and not the company standard. There were many construction and funding issues with Oak Hill Apartments and to compound those problems, during the development and construction phase the Development Director retired and the construction project passed through a series of project managers. The long-time Executive Director also retired, which created further problems. Additionally the Director of Property Management resigned during the lease up phase. The Finance Director was the only senior management employee who had been involved with the development and construction of Oak Hill Apartments. Many non finance tasks were assigned to the Finance Department out of necessity. Those issues have been resolved and future developments will be handled correctly.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION  
CURRENT YEAR FINDINGS  
OCTOBER 31, 2008

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Oak Hill Apartments – RURAL DEVELOPMENT PROJECT #04-017-868897735  
2008-2 Failure to Set Aside Security Deposits**

Condition

As of October 31, 2008, approximately one-half of the Security Deposits collected from sixteen tenants during the lease-up of Oak Hill Apartments were inappropriately deposited into the Construction Bank Account rather than into a separate Security Deposit Bank Account.

Effect

The Security Deposit Bank Account was underfunded by \$5,600.

Cause

Although procedures exist requiring tenants' Security Deposits to be deposited into a designated Security Deposit Bank Account, they were not properly followed, due to a coordination issue during the lease-up of Oak Hill Apartments between the Property Management and Development departments of RCHDC.

Criteria

The Regulatory Agreement from Rural Development that affects Oak Hill Apartments together with HB-2-3560, Chapter 4, Paragraph 4.3(D) require that Security Deposits collected from tenants be deposited into a properly designated Security Deposit Bank Account.

Recommendation

The \$5,600 of Security Deposits collected from tenants that were inappropriately deposited into the Construction Account should be transferred into the Security Deposit Bank Account as soon as possible. Procedures should be followed to insure that Tenant Security Deposits received from tenants are always promptly deposited into a segregated Security Deposit Bank Account.

Project Response and Action Plan

Management is in agreement. Oak Hill Apartments rented up very slowly and erratically. All deposits were identified by tenant name and unit number in an account designated as the Oak Hill construction account. All Security Deposits were restricted until they were transferred from the Oak Hill construction account to the segregated Oak Hill Security Deposit account. While the deposits were in the construction account, they were segregated and accounted for. At this time all Security Deposits are fully and properly accounted for and are in the properly designated Security Deposit Bank Account. It is company practice and policy to immediately deposit Security Deposit funds into a segregated Security Deposit account. Again, Oak Hill Apartments leased up in such an erratic fashion that policy was not completely followed. Staff has been directed to properly follow policy and procedure in the future.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION  
CURRENT YEAR FINDINGS  
OCTOBER 31, 2008

**Oak Hill Apartments – RURAL DEVELOPMENT PROJECT #04-017-868897735**  
**2008-3 Failure to Fund the Replacement Reserve**

Condition

Oak Hill Apartments failed to set aside any required Reserves for Replacements into a separate Replacement Reserve Bank Account for the fiscal year ended October 31, 2008.

Effect

The Replacement Reserve Bank Account was underfunded by \$41,731 pursuant to the Rural Development Regulatory Agreement and by \$40,001 pursuant to the HCD – HOME Regulatory Agreement and the HCD – Joe Serna Regulatory Agreement.

Cause

Due to excessive vacancies related to delays in the lease-up of Oak Hill Apartments, cash flow from operations was inadequate to set aside any Reserves for Replacements during the first full year of operations ended October 31, 2008.

Criteria

The Regulatory Agreements from Rural Development, HCD – HOME and HCD – Joe Serna that affect Oak Hill Apartments together with HB-2-3560, Chapter 4, Paragraph 4.3(C) require that a predetermined amount of Reserves for Replacements be transferred from operations on a monthly basis and deposited into a properly designated Replacement Reserve Bank Account.

Recommendation

The Replacement Reserve Bank Account for Oak Hill apartments should be funded with \$41,731 as soon as possible. As a possible alternative, RCHDC may negotiate written waivers from Rural Development and HCD – HOME.

Project Response and Action Plan

Oak Hill Apartments has struggled to pay operating expenses and has not had cash flow to fund their reserves. Property Management will contact Rural Development and HCD to seek written waivers.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION  
CURRENT YEAR FINDINGS  
OCTOBER 31, 2008

**Bevins Court Apartments – HUD Project #121-HD069-NP-CMI/CA39Q991001**  
**2008-4 Surplus Cash – Supportive Housing for Persons with Disabilities, CFDA No. 14.181**

Condition

Bevins Court Apartments did not properly compute surplus cash.

Effect

Bevins Court Apartments did not transfer \$2,072 of surplus cash within 60 days of the fiscal year end.

Cause

Bevins Court Apartments had classified long-term accrued interest as a current obligation.

Criteria

The Regulatory Agreement for Bevins Court Apartments states “within 60 days after the end of each fiscal year, any residual receipts realized from operations of the mortgaged property shall be deposited in a separate residual receipts account.”

Recommendation

Bevins Court Apartments should properly classify liabilities and transfer surplus cash to a residual receipts account.

Project Response and Action Plan

Management will establish a new residual receipts account and transfer the surplus cash as determined by the auditors.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION  
CORRECTIVE ACTION PLAN  
OCTOBER 31, 2008

A Corrective Action Plan is not available and has not been submitted with the audited financial statements. If required, RCHDC will prepare its Corrective Action Plan and will submit it to all recipients of the audit report within sixty days of the issue date of the report.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION  
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS  
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2008

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Explanation, If Not Implemented</u>
<p>2007-1    <b>Lenore Street Senior Housing:</b>  During our audit we found that the October 2007 deposit was not made to the Reserve for Replacement Account in a timely manner. As of the time of our report the delinquent deposit has been made and the entity is timely on deposits to the Reserve for Replacements Account.  We recommend thorough training for all new employees in order to avoid similar situations in the future.</p>	Implemented	