

**SAN LUIS OBISPO COUNTY
HOUSING TRUST FUND**

INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS

For the Year Ended
December 31, 2006

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS

For the Year Ended December 31, 2006

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CROSBY & CINDRICH, CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

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Independent Auditors' Report

To the Board of Directors
San Luis Obispo County Housing Trust Fund
San Luis Obispo, California

We have audited the accompanying statement of financial position of San Luis Obispo County Housing Trust Fund (a nonprofit organization), as of December 31, 2006, and the related statements of activities, functional expenses, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Luis Obispo County Housing Trust Fund, as of December 31, 2006, and the results of 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.

CROSBY & CINDRICH
Certified Public Accountants
A Professional Corporation

August 23, 2007

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

STATEMENT OF FINANCIAL POSITION

December 31, 2006

ASSETS

Current assets:

Cash and cash equivalents
Interest receivable
Prepaid expenses
Notes receivable (current portion)

Total current assets

Non-current assets:

Notes receivable (net current portion)

Total assets

	\$	299,394
		6,324
		3,621
		55,415
		364,754
		1,163,593
		\$ 1,528,347

LIABILITIES

Current liabilities:

Accounts payable
Accrued payroll tax liabilities
Accrued interest payable
Accrued vacation payable
Notes payable (current portion)

Total current liabilities

Long-term liabilities:

Lines of credit
Notes payable (net current portion)

Total long-term liabilities

Total liabilities

	\$	2,938
		67
		3,951
		3,820
		8,925
		19,701
		549,547
		665,075
		1,214,622
		1,234,323
		158,679
		135,345
		294,024
		\$ 1,528,347

NET ASSETS

Unrestricted
Permanently restricted

Total net assets

Total liabilities and net assets

The accompanying notes are an integral part of these financial statements.

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

STATEMENT OF ACTIVITIES

For The Year Ended December 31, 2006

REVENUE AND SUPPORT

Grants
 Contributions
 In-kind donations
 Loan fees
 Interest income
 Special event and fundraising

Total revenue

EXPENSES

Program services
 Management and general
 Fundraising

Total expenses

Change in net assets

	<u>Operating Fund Unrestricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Grants	\$ 144,654	\$ 100,000	\$ 244,654
Contributions	55,687	12,357	68,044
In-kind donations	360		360
Loan fees	2,140		2,140
Interest income	63,198		63,198
Special event and fundraising	-	2,678	2,678
Total revenue	266,039	115,035	381,074
Program services	157,143		157,143
Management and general	30,405		30,405
Fundraising	20,390		20,390
Total expenses	207,938		207,938
Change in net assets	\$ 58,101	\$ 115,035	\$ 173,136

The accompanying notes are an integral part of these financial statements.

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

STATEMENT OF CHANGES IN NET ASSETS

For The Year Ended December 31, 2006

NET ASSETS - December 31, 2005

Change in net assets

NET ASSETS - December 31, 2006

<u>Operating Fund Unrestricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
\$ 100,578	\$ 20,310	\$ 120,888
58,101	115,035	173,136
\$ 158,679	\$ 135,345	\$ 294,024

The accompanying notes are an integral part of these financial statements.

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended December 31, 2006

FUNCTIONAL EXPENSES

	<u>Program Services</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Totals</u>
Salary and wages	\$ 74,778	\$ 14,956	\$ 9,970	\$ 99,704
Payroll taxes and benefits	18,569	3,714	2,475	24,758
Rent	6,188	1,238	824	8,250
Training and meetings	325	139	464	928
Accounting and legal	2,623	7,869		10,492
Automobile and travel expense	1,817	419	559	2,795
Professional services	1,619		4,855	6,474
Office expense	884	204	272	1,360
Loan servicing and fees	2,716			2,716
Pension expense	2,713	543	361	3,617
Postage	111	26	33	170
Printing	814	188	250	1,252
Insurance	2,059	686		2,745
Interest	40,215			40,215
Telephone and communications	842	168	113	1,123
Miscellaneous	603	121	80	804
Dues and subscriptions	267	134	134	535
	\$ 157,143	\$ 30,405	\$ 20,390	\$ 207,938
Total functional expenses				

The accompanying notes are an integral part of these financial statements.

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

STATEMENT OF CASH FLOWS For The Year Ended December 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets

\$ 173,136

Adjustment to reconcile increase in net assets to net cash used by operating activities:

Increase in interest receivable

(2,521)

Decrease in prepaid expenses

31

Decrease in grant receivable

32,456

Increase in notes receivable

(286,151)

Increase in accounts payable

2,938

Decrease in accrued payroll tax liabilities

(63)

Increase in accrued interest payable

3,863

Increase in accrued vacation payable

573

Total adjustments

(248,874)

Net cash used by operating activities

(75,738)

CASH FLOWS FROM FINANCING ACTIVITIES

Repayment on line of credit

(348,310)

Borrowing on long term debt

639,000

Net cash provided by financing activities

290,690

NET INCREASE IN CASH

214,952

CASH AT BEGINNING OF YEAR

84,442

CASH AT END OF YEAR

\$ 299,394

Supplemental information:

Cash paid for interest was \$36,352 for the year ended December 31, 2006.

The accompanying notes are an integral part of these financial statements.

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE 1: HISTORY AND ORGANIZATION

The San Luis Obispo County Housing Trust Fund is a California non-profit, non-stock, public benefit corporation that was incorporated in 2003, under the laws of the State of California. The mission of the San Luis Obispo Housing Trust Fund is to increase the supply of affordable housing for very low, low and moderate income residents of San Luis Obispo County, including households with special needs. Rather than directly develop or manage affordable housing, the Housing Trust Fund provides financing and technical assistance to private developers, non-profit corporations and local governments to support the creation and preservation of affordable housing.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements are presented on the accrual basis of accounting. The financial resources are maintained in accordance with the principles of fund accounting.

The *unrestricted operating fund* is utilized to record contributions, fund-raising, fees and other forms of unrestricted revenue and expenditures related to the general operations and fund-raising efforts of the Organization

The *temporarily restricted fund* is utilized to record resources received by the Organization that are temporarily restricted as to use by the donor or grantor. When the restriction expires, the net assets of this fund are reclassified to unrestricted net assets.

The *permanently restricted fund* represents funds subject to restrictions of gift instruments requiring in perpetuity that the principal be invested and only the income, or some portion thereof, be used for operations.

Cash and Cash Equivalents

Cash and cash equivalents includes all liquid investments including money market accounts and certificates of deposits. The Organization maintains all cash and cash equivalents with two banks, one of which exceeds the Federal Deposit Insurance Corporation limit, which covers up to \$100,000 of the Organization's combined accounts.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. All pledges receivable and amounts received that are restricted for future periods or donor-restricted for specific purposes are reported as temporarily restricted. When the donor stipulated time restriction ends or a purpose restriction is accomplished, then the restricted net assets are reclassified to unrestricted net assets and are reported in the statement of support, revenues, allocations and expenses as net assets released from restriction. If a restriction is fulfilled in the same time period in which the contribution is received, the contribution is reported as unrestricted.

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

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

Income Tax

San Luis Obispo County Housing Trust Fund is recognized by the Internal Revenue Service as a qualified section 501(c)(3), non-profit organization, and as such, is not liable for Federal income or State Franchise tax.

Donated Services

San Luis Obispo County Housing Trust Fund receives donations of time and services from members of the community and volunteers. The value of these donations is not reflected in the accompanying financial statements since no objective basis is available to measure the value of these services. In-kind donations of fixed assets and supplies used directly by the organization are valued at their appraised values at the time of the gift.

Concentration of Revenue Risk

The Organization's three largest grants provided approximately 58% of the Organization's support.

NOTE 3: NOTES RECEIVABLE

Notes receivable are carried at unpaid principal balances, net of any allowance for note losses. Management's periodic evaluation of the adequacy of the allowance is based on past loan experience. Currently, management has determined that an allowance for doubtful accounts would be immaterial based on the Organization's credit policies, prior collection experience, and current economic conditions. Loans are considered impaired if full principal or interest payments are not anticipated in accordance with the contractual terms. The Organization's practice would be to charge off any note or portion of a note when the loan is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating financial condition, or for other reasons.

Interest on the notes receivable is recognized over the term of the note and is calculated using the contractual interest rates indicated on each note on principal amounts outstanding.

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE 4: LINES OF CREDIT

The San Luis Obispo County Housing Trust Fund established a ten year, \$1,000,000 line-of-credit, on April 5, 2004, with Mission Community Bank. This loan is unsecured; however the San Luis Obispo County Housing Trust Fund may assign deeds of trust from loans made to the bank as an abundance of caution. The loan is due February 20, 2014 and the current balance outstanding at December 31, 2006 was \$232,857. Interest is currently fixed at 3%. The interest rate will adjust to the Wall Street Journal prime minus 1% on February 20, 2009 and then remain fixed through the term of the loan.

The San Luis Obispo County Housing Trust Fund established an additional ten year, \$1,000,000 line-of-credit, on July 14, 2004, with Mid-State Bank and Trust. This loan is unsecured; however the San Luis Obispo County Housing Trust Fund may assign deeds of trust from loans made to the bank as and abundance of caution. The loan is due June 30, 2015 and the current balance outstanding at December 31, 2006 was \$316,690. Interest is calculated using a 5% fixed rate until June 30, 2010. At that time, the interest rate will adjust to the Wall Street Journal prime minus 1% and remain fixed for the balance of the loan term.

NOTE 5: NOTES PAYABLE

<u>Lender</u>	<u>Loan Date</u>	<u>Maturity Date</u>	<u>Current</u>	<u>Long -Term</u>	<u>Total</u>
Adrian Dominican Sisters \$35,000 at 2% interest rate payable quarterly.	November 11, 2005	November 15, 2008		\$35,000	\$35,000
The Erich & Hannah Sachs Foundation \$200,000 at 3% interest rate payable semi- annually.	March 15, 2006	March 15, 2011		200,000	200,000
Seton Enablement Fund, Inc. \$50,000 at 3% interest rate payable quarterly.	March 1, 2006	March 1, 2011	\$8,925	41,075	50,000
Catholic Healthcare West \$339,000 at 3% interest rate payable quarterly.	April 1, 2006	March 31, 2011		339,000	339,000
Sisters of St. Francis of Philadelphia \$50,000 at 3% interest rate payable annually.	April 21, 2006	April 14, 2011		50,000	50,000
	Total Notes Payable		\$8,925	\$665,075	\$674,000

See accountants' report.

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

The required note principal and interest payments are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 8,925	\$ 18,803	\$ 27,728
2008	47,216	19,291	66,507
2009	12,587	18,395	30,982
2010	12,969	18,013	30,982
2011	592,303	10,402	602,705
Thereafter	0	0	0
Totals	\$ <u>674,000</u>	\$ <u>84,904</u>	\$ <u>758,904</u>

NOTE 6: EMPLOYEE BENEFITS/RETIREMENT PLAN

San Luis Obispo County Housing Trust Fund offers an Internal Revenue Code Section 403(b) deferral program which the Organization contributes 5% of each qualified employees salary to a money purchase pension plan. The Organization's contribution rate was 3% for 2005. Both full and part time employees become eligible for this benefit after completing six months of employment. Total pension expense for the year ended December 31, 2006 was \$3,617.

The Organization also offers an Internal Revenue Code Section 123 health care direct reimbursement program. The program is available to employees eligible for health plan benefits, effective October 1, 2003.