

**SAN LUIS OBISPO COUNTY
HOUSING TRUST FUND**

INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS

For the Year Ended
December 31, 2007

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS

For the Year Ended December 31, 2007

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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, 2007, 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, 2007, 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 18, 2008

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

STATEMENT OF FINANCIAL POSITION

December 31, 2007

ASSETS		
Current assets:		
Cash and cash equivalents	\$	269,837
Grant receivable		47,096
Interest receivable		7,413
Prepaid expenses		2,389
Notes receivable (current portion)		738,715
Total current assets		1,065,450
Non-current assets:		
Notes receivable (net current portion)		765,821
Total assets		\$ 1,831,271
LIABILITIES		
Current liabilities:		
Accounts payable	\$	1,862
Accrued payroll liabilities		2,889
Accrued interest payable		5,527
Accrued vacation payable		4,344
Notes payable (current portion)		47,216
Total current liabilities		61,838
Long-term liabilities:		
Lines of credit		232,857
Notes payable (net current portion)		1,148,859
Total long-term liabilities		1,381,716
Total liabilities		1,443,554
NET ASSETS		
Unrestricted		
Designated		84,678
Undesignated		139,543
Permanently restricted		163,496
Total net assets		387,717
Total liabilities and net assets		\$ 1,831,271

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, 2007

	Operating Fund <u>Unrestricted</u>	Permanently Restricted	<u>Totals</u>
REVENUE AND SUPPORT			
Grants	\$ 159,546	\$ 75	\$ 159,621
Contributions	17,448	23,695	41,143
In-kind donations	4,457		4,457
Loan fees	3,500		3,500
Interest income	82,603		82,603
Special event and fundraising		4,381	4,381
Total revenue	267,554	28,151	295,705
EXPENSES			
Program services	153,106		153,106
Management and general	32,727		32,727
Fundraising	16,179		16,179
Total expenses	202,012		202,012
Change in net assets	\$ 65,542	\$ 28,151	\$ 93,693

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, 2007

	<u>Operating Fund Unrestricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
NET ASSETS - December 31, 2006	\$ 158,679	\$ 135,345	\$ 294,024
Change in net assets	65,542	28,151	93,693
NET ASSETS - December 31, 2007	\$ 224,221	\$ 163,496	\$ 387,717

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, 2007

FUNCTIONAL EXPENSES

	Program <u>Services</u>	Management & General	Fundraising	<u>Totals</u>
Salary and wages	\$ 66,518	\$ 13,304	\$ 8,869	\$ 88,691
Payroll taxes and benefits	18,633	3,727	2,484	24,844
Rent	8,201	1,640	1,094	10,935
Training and meetings	409	82	54	545
Accounting and legal	1,236	11,123		12,359
Automobile and travel expense	1,100	220	147	1,467
Professional services	560		1,681	2,241
Office expense	4,151	830	554	5,535
Pension expense	3,749	750	499	4,998
Printing	569	284	285	1,138
Insurance	1,530	306	204	2,040
Interest	44,143			44,143
Telephone and communications	1,427	285	191	1,903
Miscellaneous	396	79	53	528
Dues and subscriptions	484	97	64	645
Total functional expenses	\$ 153,106	\$ 32,727	\$ 16,179	\$ 202,012

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, 2007

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 93,693
Adjustment to reconcile increase in net assets to net cash used by operating activities:	
Increase in grant receivable	(47,096)
Increase in interest receivable	(1,089)
Decrease in prepaid expenses	1,232
Increase in notes receivable	(285,528)
Decrease in accounts payable	(1,076)
Increase in accrued payroll tax liabilities	2,822
Increase in accrued interest payable	1,576
Increase in accrued vacation payable	524
Total adjustments	(328,635)
Net cash used by operating activities	(234,942)
CASH FLOWS FROM FINANCING ACTIVITIES	
Repayment on line of credit	(316,690)
Repayment on notes payable	(8,925)
Borrowing on line of credit	100,000
Borrowing on notes payable	431,000
Net cash provided by financing activities	205,385
NET DECREASE IN CASH	(29,557)
CASH AT BEGINNING OF YEAR	299,394
CASH AT END OF YEAR	\$ 269,837

Supplemental information:

Cash paid for interest was \$44,142 for the year ended December 31, 2007.

There was no cash paid for income taxes for the year ended December 31, 2007.

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

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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 *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.

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.

See accountants' report.

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Rental Agreement

The San Luis Obispo Housing Trust Fund has entered into a rental agreement for office space on a month to month basis.

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. Based on these loan agreements, there has been no evidence of default on any of the notes receivable.

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, 2007

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 secured by the assignment of deeds of trust from future loans made by the San Luis Obispo Housing Trust Fund. The loan is due February 20, 2014 and the current balance outstanding at December 31, 2007 was \$232,857. Interest is currently fixed at 3.0%. The interest rate will adjust to the Wall Street Journal prime minus 1.0% on February 20, 2009 and then remain fixed through the term of the loan.

The San Luis Obispo County Housing Trust Fund established a ten year, \$1,000,000 line-of-credit, on July 15, 2005, with Mid-State Bank and Trust, now Rabobank, N.A. This loan is also secured by the assignment of deeds of trust from future loans made by the San Luis Obispo Housing Trust Fund. The loan is due June 30, 2015 and there was no balance outstanding at December 31, 2007. Interest is calculated using a 5.0% fixed rate until June 30, 2010. At that time, the interest rate will adjust to the Wall Street Journal prime minus 1.0% and remain fixed for the balance of the loan term.

NOTE 5: NOTES PAYABLE

<u>Lender</u>	<u>Current</u>	<u>Long -Term</u>	<u>Total</u>
Rabobank, N.A., for \$100,000, dated January 12, 2007, unsecured, interest is computed at 0.0% fixed rate, due January 15, 2012.	\$ -	\$ 100,000	\$ 100,000
Adrian Dominican Sisters, for \$35,000, dated November 11, 2005, unsecured, interest is computed at 2.0% fixed rate, payable quarterly, due November 15, 2008.	35,000	-	35,000
The Erich & Hannah Sachs Foundation, for \$200,000, dated March 15, 2006, unsecured, interest is computed at 3.0% fixed rate, payable semi-annually, due March 15, 2011.	-	200,000	200,000
Seton Enablement Fund, Inc., for \$50,000, dated March 1, 2006, unsecured, interest is computed at 3.0% fixed rate, payable quarterly, due March 1, 2011.	12,216	28,859	41,075
Catholic Healthcare West, for \$500,000, dated April 1, 2006, unsecured, interest is computed at 3.0% fixed rate, payable quarterly, due March 31, 2011.	-	500,000	500,000
Sisters of St. Francis of Philadelphia, for \$50,000, dated April 21, 2006, unsecured, interest is computed at 3.0% fixed rate, payable annually, due April 14, 2011.	-	50,000	50,000

See accountants' report.

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 5: NOTES PAYABLE (Continued)

Adrian Dominican Sisters, for \$65,000, dated December 15, 2007, unsecured, interest is computed at 3.0% fixed rate, payable quarterly, due December 15, 2012.

- 65,000 65,000

Monarch Community Fund LLC, for \$180,000, dated December 14, 2007, unsecured, interest is computed at 4.5% fixed rate, payable semi-annually, due December 14, 2010.

- 180,000 180,000

Sisters of St. Joseph in California Los Angeles Province, for \$25,000, dated May 8, 2007, unsecured, interest is computed at 3.0% fixed rate, payable semi-annually, due May 8, 2012.

- 25,000 25,000

Totals \$ 47,216 \$ 1,148,859 \$ 1,196,075

The required note principal and interest payments are as follows:

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 47,216	\$ 35,096	\$ 82,312
2009	12,587	34,025	46,612
2010	192,969	33,643	226,612
2011	753,303	14,725	768,028
2012	<u>190,000</u>	<u>2,325</u>	<u>192,325</u>
Totals	\$ <u>1,196,075</u>	\$ <u>119,814</u>	\$ <u>1,315,889</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 5.0% for 2007. 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, 2007 was \$4,998.

The Organization also offers an Internal Revenue Code Section 125 health care direct reimbursement program. The program is available to employees eligible for health plan benefits, effective October 1, 2003.

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 7: NET ASSETS

At December 31, 2007, net assets were restricted by donors or designated by the Organization as follows.

Unrestricted net assets:	
Designated for losses/contingencies	\$ 80,000
Designated for Moylan Fund	4,678
Undesignated	<u>139,543</u>
Total unrestricted net assets	<u>224,221</u>
Permanently restricted for loan funds	<u>163,496</u>
Total permanently restricted net assets	<u>163,496</u>
Total net assets	\$ <u>387,717</u>

See accountants' report.