

**SAN LUIS OBISPO COUNTY
HOUSING TRUST FUND**

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS

For the Year Ended
December 31, 2009

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

For the Year Ended December 31, 2009

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities	4
Statement of Changes in Net Assets.....	5
Statement of Functional Expenses.....	6
Statement of Cash Flows	7
NOTES TO FINANCIAL STATEMENTS	8-12
REPORT ON COMPLIANCE AND INTERNAL CONTROLS	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statement Performed in Accordance with <i>Government Auditing Standards</i>	13

CROSBY COMPANY, CERTIFIED PUBLIC ACCOUNTANT

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Independent Auditor's Report

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

I have audited the accompanying statement of financial position of the San Luis Obispo County Housing Trust Fund (a nonprofit organization), as of December 31, 2009, 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. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Luis Obispo County Housing Trust Fund, as of December 31, 2009, 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.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 30, 2010, on my consideration of the San Luis Obispo County Housing Trust Fund's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.



CROSBY COMPANY
Certified Public Accountant

October 30, 2010

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

STATEMENT OF FINANCIAL POSITION

December 31, 2009

ASSETS		
Current assets:		
Cash and cash equivalents	\$	341,113
Accounts receivable		193
Interest receivable		13,527
Prepaid expenses		3,124
Notes receivable (current portion)		1,430,431
Total current assets		1,788,388
Non-current assets:		
Notes receivable (net current portion)		1,388,542
Total assets	\$	3,176,930
LIABILITIES		
Current liabilities:		
Accounts payable	\$	206
Accrued payroll liabilities		5,149
Accrued interest payable		5,524
Accrued vacation payable		6,817
Notes payable (current portion)		12,969
Total current liabilities		30,665
Long-term liabilities:		
Lines of credit		1,097,500
Notes payable (net current portion)		1,093,303
Total long-term liabilities		2,190,803
Total liabilities		2,221,468
NET ASSETS		
Unrestricted		
Designated		84,678
Undesignated		174,198
Temporarily restricted		500,000
Permanently restricted		196,586
Total net assets		955,462
Total liabilities and net assets	\$	3,176,930

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, 2009

	Operating Fund <u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Totals</u>
REVENUE AND SUPPORT				
Grants	\$ 100,154	\$ 500,000	\$ -	\$ 600,154
Contributions	35,107		28,079	63,186
In-kind donations	840			840
Fee income	28,865			28,865
Interest income-Program	64,129			64,129
Interest income-Investment	9,809			9,809
Total revenue	238,904	500,000	28,079	766,983
EXPENSES				
Program services	152,178			152,178
Management and general	38,114			38,114
Fundraising	20,783			20,783
Total expenses	211,075	-	-	211,075
Change in net assets	\$ 27,829	\$ 500,000	\$ 28,079	\$ 555,908

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, 2009

	<u>Operating Fund Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
NET ASSETS - December 31, 2008	\$ 231,047	\$ -	\$ 168,507	\$ 399,554
Change in net assets	27,829	500,000	28,079	555,908
NET ASSETS - December 31, 2009	\$ 258,876	\$ 500,000	\$ 196,586	\$ 955,462

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, 2009

FUNCTIONAL EXPENSES

	Program <u>Services</u>	Management <u>& General</u>	<u>Fundraising</u>	<u>Totals</u>
Salary and wages	\$ 82,291	\$ 16,458	\$ 10,972	\$ 109,721
Payroll taxes and benefits	18,675	3,735	2,490	24,900
Rent	5,119	1,024	682	6,825
Training and meetings	169	34	22	225
Accounting and legal	1,641	14,771		16,412
Automobile and travel expense	824	165	110	1,099
Professional services	1,741		5,224	6,965
Office expense	855	171	114	1,140
Pension expense	4,022	804	536	5,362
Printing	99	20	13	132
Insurance	1,562	312	208	2,082
Interest	32,081			32,081
Telephone and communications	1,344	269	179	1,792
Miscellaneous	1,541	308	205	2,054
Dues and subscriptions	214	43	28	285
Total functional expenses	\$ 152,178	\$ 38,114	\$ 20,783	\$ 211,075

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, 2009

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 555,908
Adjustment to reconcile change in net assets to net cash used by operating activities:	
Decrease in receivables	9,807
Increase in interest receivable	(9,770)
Increase in prepaid expenses	(688)
Increase in notes receivable	(2,053,121)
Decrease in accounts payable	(573)
Increase in accrued payroll tax liabilities	258
Increase in accrued interest payable	2,308
Increase in accrued vacation payable	2,289
Total adjustments	(2,049,490)
Net cash used by operating activities	(1,493,582)

CASH FLOWS FROM FINANCING ACTIVITIES

Repayment on line of credit	(232,857)
Repayment on notes payable	(12,587)
Borrowing on line of credit	1,097,500
Borrowing on notes payable	150,000
Net cash provided by financing activities	1,002,056

NET CHANGE IN CASH

(491,526)

CASH AT BEGINNING OF YEAR

832,639

CASH AT END OF YEAR

\$ 341,113

Supplemental information:

Cash paid for interest was \$32,081 for the year ended December 31, 2009.

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

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 or used to provide housing loans 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 \$250,000 of the Organization's combined accounts. Effective October 3, 2008, the FDIC temporarily increased insured deposits up to \$250,000 and is scheduled to return to \$100,000 after December 31, 2013.

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, 2009

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

Management has determined that an allowance for doubtful accounts would be zero based on the organization's credit policies, prior collection experience, and the type of customers associated with San Luis Obispo County Housing Trust Fund.

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 equipment, commercial services 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 75% of the Organization's support. Interest and fee income covered 49% of total expenses.

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 3: 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 up to 5% of each qualified employees salary to a money purchase pension plan. 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, 2009 was \$5,362.

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.

NOTE 4: 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.

NOTE 5: 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, 2009 was \$997,500. The interest rate is fixed at 2.25%.

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 the current balance outstanding at December 31, 2009 was \$100,000. 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.

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 6: 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 \$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
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.	12,969	3,303	16,272
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 2006, unsecured, interest is computed at 3.0% fixed rate, payable annually, due April 14, 2011.	-	50,000	50,000
Religious Communities Investment Fund, for \$25,000, dated May 2007, unsecured, interest is computed at 3.0% fixed rate, payable semi-annually, due May 8, 2012.	-	25,000	25,000
SSM International Finance, for \$25,000, dated March 4, 2009, unsecured, interest is computed at 2.0% fixed rate, payable semi-annually on June 30 and December 31, due June 30, 2014.	-	25,000	25,000

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 6: NOTES PAYABLE (Continued)

<u>Lender</u>	<u>Current</u>	<u>Long -Term</u>	<u>Total</u>
Religious Communities Investment Fund, for \$125,000, dated November 2, 2009, unsecured, interest is computed at 3.0% fixed rate, payable quarterly beginning February 2, 2010, due November 2, 2014.	\$ -	\$ 125,000	\$ 125,000
Totals	<u>\$ 12,969</u>	<u>\$ 1,093,303</u>	<u>\$ 1,106,272</u>

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>
2010	\$ 12,969	\$ 29,793	\$ 42,762
2011	753,303	18,975	772,278
2012	190,000	6,575	196,575
2013	-	4,250	4,250
2014	<u>150,000</u>	<u>4,250</u>	<u>154,250</u>
Totals	<u>\$ 1,106,272</u>	<u>\$ 63,843</u>	<u>\$ 1,170,115</u>

NOTE 7: NET ASSETS

At December 31, 2009, 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>174,198</u>
Total unrestricted net assets		<u>258,876</u>
Restricted net assets:		
Temporarily restricted for loan funds		500,000
Permanently restricted for loan funds		<u>196,586</u>
Total restricted net assets		<u>696,586</u>
Total net assets	\$	<u>955,462</u>

CROSBY COMPANY, CERTIFIED PUBLIC ACCOUNTANT

1457 MARSH STREET, SUITE 100 - SAN LUIS OBISPO, CA 93401

PHONE: (805)543-6100 FAX: (805)858-9505

**Independent Auditor's Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

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

I have audited the accompanying financial statements of the San Luis Obispo County Housing Trust Fund as of and for the year ended December 31, 2009, and have issued my report thereon dated October 30, 2010. I conducted my 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 my audit, I considered the Organization's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the 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 District's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control. My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.



CROSBY COMPANY
Certified Public Accountant

October 30, 2010

See Auditor's report