

**SAN LUIS OBISPO COUNTY
HOUSING TRUST FUND**

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS

For the Year Ended
December 31, 2011

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

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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, 2011, 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, 2011, 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 September 4, 2012, 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

September 4, 2012

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

STATEMENT OF FINANCIAL POSITION

December 31, 2011

ASSETS		
Current assets:		
Cash and cash equivalents	\$	1,236,092
Accounts receivable		2,261
Interest receivable		13,324
Prepaid expenses		4,814
Notes receivable (current portion)		2,003,403
Total current assets		3,259,894
Non-current assets:		
Notes receivable (net current portion)		1,699,594
Total assets	\$	4,959,488
LIABILITIES		
Current liabilities:		
Accounts payable	\$	4,686
Accrued payroll liabilities		5,707
Accrued interest payable		7,802
Accrued vacation payable		7,779
Notes payable (current portion)		211,101
Total current liabilities		237,075
Long-term liabilities:		
Lines of credit		15,000
Notes payable (net current portion)		1,487,957
Total long-term liabilities		1,502,957
Total liabilities		1,740,032
NET ASSETS		
Unrestricted:		
Designated		274,678
Undesignated		108,932
Temporarily restricted		2,630,000
Permanently restricted		205,846
Total net assets		3,219,456
Total liabilities and net assets	\$	4,959,488

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, 2011

	Operating Fund Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
REVENUE AND SUPPORT				
Grants	\$ 92,161	\$ 1,630,000	\$ -	\$ 1,722,161
Contributions	17,501		5,885	23,386
Fee income	13,600			13,600
Interest income-Program	208,446			208,446
Interest income-Investment	1,509	585		2,094
Net assets released from restrictions:				
Satisfaction of purpose restrictions	585	(585)		
Total revenue	333,802	1,630,000	5,885	1,969,687
EXPENSES				
Program services	218,883			218,883
Management and general	40,245			40,245
Fundraising	8,771			8,771
Total expenses	267,899	-	-	267,899
Change in net assets	\$ 65,903	\$ 1,630,000	\$ 5,885	\$ 1,701,788

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, 2011

	<u>Operating Fund Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
NET ASSETS - December 31, 2010	\$ 317,707	\$ 1,000,000	\$ 199,961	\$ 1,517,668
Change in net assets	65,903	1,630,000	5,885	1,701,788
NET ASSETS - December 31, 2011	\$ 383,610	\$ 2,630,000	\$ 205,846	\$ 3,219,456

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, 2011

FUNCTIONAL EXPENSES	Program Services	Management & General	Fundraising	Totals
Salary and wages	\$ 101,322	\$ 11,920	\$ 5,960	\$ 119,202
Payroll taxes and benefits	23,837	2,805	1,402	28,044
Occupancy	8,880	1,045	522	10,447
Training and meetings	1,229	145	72	1,446
Accounting and legal	4,774	14,322		19,096
Automobile and travel expense	2,376	279	140	2,795
Professional services	2,793	8,380		11,173
Office expense	1,356	159	80	1,595
Pension expense	4,128	485	243	4,856
Printing	1,312	155	77	1,544
Insurance	2,028	239	119	2,386
Interest	62,203			62,203
Telephone and communications	1,387	163	82	1,632
Miscellaneous	318	37	19	374
Dues and subscriptions	940	111	55	1,106
Total functional expenses	\$ 218,883	\$ 40,245	\$ 8,771	\$ 267,899

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, 2011

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 1,701,788
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Increase in receivables	(1,228)
Decrease in interest receivable	561
Decrease in prepaid expenses	482
Increase in notes receivable	(348,190)
Increase in accounts payable	1,149
Decrease in accrued payroll tax liabilities	(165)
Increase in accrued interest payable	2,990
Decrease in accrued vacation payable	(835)
Total adjustments	(345,236)
Net cash provided by operating activities	1,356,552
CASH FLOWS FROM FINANCING ACTIVITIES	
Repayment on line of credit	(585,000)
Repayment on notes payable	(9,245)
Borrowing on notes payable	230,000
Net cash used by financing activities	(364,245)
NET CHANGE IN CASH	992,307
CASH AT BEGINNING OF YEAR	243,785
CASH AT END OF YEAR	\$ 1,236,092

Supplemental information:

Cash paid for interest was \$62,203 for the year ended December 31, 2011

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

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 County 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 one bank. Currently, these accounts are exceeding 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, 2011

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 County Housing Trust Fund entered into a three-year term office lease agreement, effective January 1, 2010. The monthly lease payment, included in Occupancy expense, was \$600 for the first year, increasing to \$800 for the second year and \$860 for the third year. The remaining annual requirements to fulfill the lease commitment are as follows:

<u>Year ending December 31,</u>	
2012	\$ <u>10,320</u>
Total	\$ <u>10,320</u>

Concentration of Revenue Risk

The Organization's three largest grants provided approximately 87% of the Organization's support. Interest and fee income covered 84% of total expenses.

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 3: EMPLOYEE BENEFITS/RETIREMENT PLAN

San Luis Obispo County Housing Trust Fund offered an Internal Revenue Code Section 403(b) deferral program which the Organization contributed up to 5% of each qualified employees salary to a money purchase pension plan, through 2011. Both full and part time employees became eligible for this benefit after completing six months of employment. Total pension expense for the year ended December 31, 2011 was \$4,856.

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 County Housing Trust Fund. The loan is due February 20, 2014 and the current balance outstanding at December 31, 2011 was \$0. 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 County Housing Trust Fund. The loan is due June 30, 2015 and the current balance outstanding at December 31, 2011 was \$15,000. Interest rate is fixed at 2.25%.

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 5: NOTES PAYABLE

<u>Lender</u>	<u>Current</u>	<u>Long – Term</u>	<u>Total</u>
San Luis Obispo County Community Foundation, for \$100,000, dated December 15, 2011, unsecured, interest is computed at 3.0% fixed rate, due December 15, 2016.	\$ -	\$ 100,000	\$ 100,000
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, extended due date March 15, 2016.	-	200,000	200,000
Sinsinawa Dominicans, Inc., for \$30,000, dated June 30, 2012, unsecured, interest is computed at 3.0% fixed rate, payable annually, due June 30, 2014.	-	30,000	30,000
Catholic Healthcare West, for \$500,000, dated April 1, 2006, unsecured, interest is computed at 3.0% fixed rate, payable quarterly, extended due date March 31, 2016.	-	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, extended due date April 15, 2016.	-	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

See Independent Auditor's report

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 5: 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
Adrian Dominican Sisters, for \$35,000, dated February 15, 2010, unsecured, interest is computed at 2.0% fixed rate, payable quarterly, due February 15, 2015.	-	35,000	35,000
Seton Enablement Fund, for \$100,000, dated April 1, 2010, unsecured, interest is computed at 3.0% fixed rate, payable quarterly, due April 1, 2015.	12,154	81,904	94,058
Seton Enablement Fund, for \$100,000, dated April 1, 2010, unsecured, interest is computed at 3.0% fixed rate, payable quarterly, due April 1, 2015.	8,947	91,053	100,000
Catholic Healthcare West, for \$250,000, dated May 10, 2010, unsecured, interest is computed at 3.0% fixed rate, payable quarterly, due May 1, 2015.	-	250,000	250,000
Totals	\$ <u>211,101</u>	\$ <u>1,487,957</u>	\$ <u>1,699,058</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>
2012	\$ 211,101	\$ 46,794	\$ 257,895
2013	24,768	43,762	68,530
2014	205,520	42,760	248,280
2015	354,477	32,088	386,565
2016	903,192	15,399	918,591
Totals	\$ <u>1,699,058</u>	\$ <u>180,803</u>	\$ <u>1,879,861</u>

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 6: NET ASSETS

At December 31, 2011, net assets were restricted by donors or designated by the Organization as follows.

Unrestricted net assets:		
Designated for loan losses	\$	120,000
Designated for operating losses		150,000
Designated for Moylan Fund		4,678
Undesignated		<u>108,932</u>
Total unrestricted net assets		<u>383,610</u>
Restricted net assets:		
Temporarily restricted for loan funds		2,630,000
Permanently restricted for loan funds		<u>205,846</u>
Total restricted net assets		<u>2,835,846</u>
Total net assets	\$	<u>3,219,456</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, 2011, and have issued my report thereon dated September 4, 2012. 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 Organization'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. I did not identify any deficiencies in internal control over financial reporting that I 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

September 4, 2012

See Independent Auditor's report