

**SAN LUIS OBISPO COUNTY  
HOUSING TRUST FUND**

INDEPENDENT AUDITOR'S REPORT  
AND  
FINANCIAL STATEMENTS

For the Year Ended  
December 31, 2012

**SAN LUIS OBISPO COUNTY HOUSING TRUST FUND**  
INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

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## **Independent Auditor's Report**

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

### ***Report on the Financial Statements***

I have audited the accompanying financial statements of the San Luis Obispo County Housing Trust Fund (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I obtained is sufficient and appropriate to provide a basis for my audit opinion.

***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, 2012, 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 June 12, 2013, 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.

A handwritten signature in black ink that reads "Robert Crosby CPA". The signature is written in a cursive style.

**CROSBY COMPANY**  
**Certified Public Accountant**

June 12, 2013

# SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

## STATEMENT OF FINANCIAL POSITION

December 31, 2012

<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents		\$ 3,485,014
Accounts receivable		932
Interest receivable		4,527
Prepaid expenses		5,032
Notes receivable (current portion)		474,997
Total current assets		3,970,502
<b>Non-current assets:</b>		
Notes receivable (net current portion)		984,109
Total assets		\$ 4,954,611
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable		\$ 3,310
Accrued payroll liabilities		6,059
Accrued interest payable		5,669
Accrued vacation payable		9,654
Total current liabilities		24,692
<b>Long-term liabilities:</b>		
Notes payable		1,125,000
Total long-term liabilities		1,125,000
Total liabilities		1,149,692
<b>NET ASSETS</b>		
<b>Unrestricted:</b>		
Designated		774,678
Undesignated		56,095
<b>Temporarily restricted</b>		2,730,000
<b>Permanently restricted</b>		244,146
Total net assets		3,804,919
Total liabilities and net assets		\$ 4,954,611

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, 2012

	Operating Fund <u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Totals</u>
<b>REVENUE AND SUPPORT</b>				
Grants	\$ 73,861	\$ 600,000	\$ 38,300	\$ 712,161
Contributions	1,706			1,706
Fee income	5,315			5,315
Interest income-Program	117,121			117,121
Interest income-Investment		10,417		10,417
Net assets released from restrictions:				
Satisfaction of purpose restrictions	510,417	(510,417)		
Total revenue	708,420	100,000	38,300	846,720
<b>EXPENSES</b>				
Program services	210,919			210,919
Management and general	40,866			40,866
Fundraising	9,472			9,472
Total expenses	261,257	-	-	261,257
Change in net assets	\$ 447,163	\$ 100,000	\$ 38,300	\$ 585,463

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, 2012

	<u>Operating Fund Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
<b>NET ASSETS - December 31, 2011</b>	\$ 383,610	\$ 2,630,000	\$ 205,846	\$ 3,219,456
Change in net assets	447,163	100,000	38,300	585,463
<b>NET ASSETS - December 31, 2012</b>	<b>\$ 830,773</b>	<b>\$ 2,730,000</b>	<b>\$ 244,146</b>	<b>\$ 3,804,919</b>

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, 2012

### FUNCTIONAL EXPENSES

	Program Services	Management & General	Fundraising	Totals
Salary and wages	\$ 113,249	\$ 13,323	\$ 6,662	\$ 133,234
Payroll taxes and benefits	24,952	2,936	1,467	29,355
Occupancy	9,784	1,151	575	11,510
Training and meetings	1,029	121	60	1,210
Accounting and legal	5,473	16,418		21,891
Automobile and travel expense	4,189	493	247	4,929
Professional services	1,834	5,502		7,336
Office expense	707	83	42	832
Pension expense	1,445	170	85	1,700
Printing	302	36	17	355
Insurance	2,971	350	175	3,496
Interest	42,577			42,577
Telephone and communications	1,498	176	88	1,762
Miscellaneous	208	24	13	245
Dues and subscriptions	701	83	41	825
<b>Total functional expenses</b>	<b>\$ 210,919</b>	<b>\$ 40,866</b>	<b>\$ 9,472</b>	<b>\$ 261,257</b>

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, 2012

### CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 585,463
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Decrease in receivables	1,329
Decrease in interest receivable	8,797
Increase in prepaid expenses	(218)
Decrease in notes receivable	2,243,891
Decrease in accounts payable	(1,376)
Increase in accrued payroll tax liabilities	352
Decrease in accrued interest payable	(2,133)
Increase in accrued vacation payable	1,875
Total adjustments	2,252,517
Net cash provided by operating activities	2,837,980

### CASH FLOWS FROM FINANCING ACTIVITIES

Repayment on line of credit	(15,000)
Repayment on notes payable	(574,058)
Net cash used by financing activities	(589,058)

### NET CHANGE IN CASH

2,248,922

### CASH AT BEGINNING OF YEAR

1,236,092

### CASH AT END OF YEAR

\$ 3,485,014

**Supplemental information:**

Cash paid for interest was \$42,577 for the year ended December 31, 2012

# SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

### **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.

#### *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, 2012

### 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. Total office lease payments for 2012 were \$10,320. On January 1, 2013, the office lease was renegotiated and is now payable on a month-to-month basis.

#### *Concentration of Revenue Risk*

The San Luis Obispo County Housing Trust Fund's bank accounts exceed the Federal Deposit Insurance Corporation (FDIC) limit, which covers up to \$250,000 of the Organization's combined accounts per financial institution. As of December 31, 2012, the excess in deposits over the FDIC insurance limits was \$2,493,864.

The Organization's two largest grants provided approximately 76% of the Organization's support. Interest and fee income covered 51% of total expenses.

# SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

### **NOTE 3: EMPLOYEE BENEFITS/RETIREMENT PLAN**

San Luis Obispo County Housing Trust Fund offers an Internal Revenue Code Section 403(b) deferral program. Both full and part time employees become eligible for this benefit after completing six months of employment.

The Organization also contributed up to 5% of each qualified employees salary to a money purchase pension plan through April 30, 2012. The total company pension match expense for the year ended December 31, 2012 was \$1,700.

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, 2012 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, 2012 was \$0. Interest rate is fixed at 2.25%.

# SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

### 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
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
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
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
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	\$ -	\$ 1,125,000	\$ 1,125,000

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>
2013	\$ -	\$ 33,500	\$ 33,500
2014	25,000	33,250	58,250
2015	250,000	29,250	279,250
2016	850,000	15,000	865,000
Totals	\$ 1,125,000	\$ 111,000	\$ 1,236,000

See Independent Auditor's report

# SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

### NOTE 6: NET ASSETS

At December 31, 2012, net assets were restricted by donors or designated by the Organization as follows.

Unrestricted net assets:		
Designated for loan fund	\$	500,000
Designated for loan losses		120,000
Designated for operating losses		150,000
Designated for Moylan Fund		4,678
Undesignated		<u>56,095</u>
Total unrestricted net assets		<u>830,773</u>
Restricted net assets:		
Temporarily restricted for loan funds		2,730,000
Permanently restricted for loan funds		<u>244,146</u>
Total restricted net assets		<u>2,974,146</u>
Total net assets	\$	<u>3,804,919</u>

**CROSBY COMPANY, CERTIFIED PUBLIC ACCOUNTANT**

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

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**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***

**Independent Auditor's Report**

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

I have audited, in accordance with the 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, the financial statements of the San Luis Obispo County Housing Trust Fund as of and for the year ended December 31, 2012, and the related notes to the financial statements and have issued my report thereon dated June 12, 2013

**Internal Control Over Financial Reporting**

In planning and performing my audit of the financial statements, I considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, I do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control 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 material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

 CPA

**CROSBY COMPANY**  
**Certified Public Accountant**

June 12, 2013