

**SAN LUIS OBISPO COUNTY
HOUSING TRUST FUND**

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS

For the Year Ended
December 31, 2013

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND
INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS
For the Year Ended December 31, 2013

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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, 2013, 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, 2013, 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 10, 2014, 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 cursive script that reads "Robert Crosby, CPA". The signature is written in black ink and is positioned above the printed name of the auditor.

CROSBY COMPANY
Certified Public Accountant
San Luis Obispo, California

June 10, 2014

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

STATEMENT OF FINANCIAL POSITION

December 31, 2013

ASSETS		
Current assets:		
Cash and cash equivalents	\$	2,099,140
Accounts receivable		140
Interest receivable		7,619
Prepaid expenses		6,689
Notes receivable (current portion)		762,030
Total current assets		2,875,618
Non-current assets:		
Notes receivable (net current portion)		2,550,769
Total assets	\$	5,426,387
LIABILITIES		
Current liabilities:		
Accounts payable	\$	2,616
Accrued payroll liabilities		6,518
Accrued interest payable		6,002
Accrued vacation payable		11,613
Notes payable (current portion)		25,000
Total current liabilities		51,749
Long-term liabilities:		
Notes payable (net current portion)		1,200,000
Total long-term liabilities		1,200,000
Total liabilities		1,251,749
NET ASSETS		
Unrestricted:		
Designated		1,274,678
Undesignated		53,014
Temporarily restricted		2,590,000
Permanently restricted		256,946
Total net assets		4,174,638
Total liabilities and net assets	\$	5,426,387

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, 2013

	Operating Fund <u>Unrestricted</u>	Temporarily Restricted	Permanently Restricted	<u>Totals</u>
REVENUE AND SUPPORT				
Grants	\$ 97,711	\$ 360,000	\$ 12,800	\$ 470,511
Contributions	1,627			1,627
Fee income	37,460			37,460
Interest income-Program	104,653			104,653
Interest income-Investment	12,680			12,680
Net assets released from restrictions:				
Satisfaction of purpose restrictions	500,000	(500,000)		
Total revenue	754,131	(140,000)	12,800	626,931
EXPENSES				
Program services	211,899			211,899
Management and general	35,165			35,165
Fundraising	10,148			10,148
Total expenses	257,212	-	-	257,212
Change in net assets	\$ 496,919	\$ (140,000)	\$ 12,800	\$ 369,719

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, 2013

	Operating Fund <u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Totals</u>
<i>NET ASSETS - December 31, 2012</i>	\$ 830,773	\$ 2,730,000	\$ 244,146	\$ 3,804,919
Change in net assets	496,919	(140,000)	12,800	369,719
<i>NET ASSETS - December 31, 2013</i>	\$ 1,327,692	\$ 2,590,000	\$ 256,946	\$ 4,174,638

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, 2013

FUNCTIONAL EXPENSES

	Program <u>Services</u>	Management <u>& General</u>	<u>Fundraising</u>	<u>Totals</u>
Salary and wages	\$ 121,137	\$ 14,251	\$ 7,126	\$ 142,514
Payroll taxes and benefits	29,210	3,436	1,719	34,365
Occupancy	10,009	1,178	588	11,775
Training and meetings	1,190	140	70	1,400
Accounting and legal	4,915	14,744		19,659
Automobile and travel expense	2,295	270	135	2,700
Professional services	3,643	126		3,769
Office expense	1,917	226	113	2,256
Printing	60	7	3	70
Insurance	3,191	375	188	3,754
Interest	30,833			30,833
Telephone and communications	1,647	194	97	1,938
Miscellaneous	108	13	6	127
Dues and subscriptions	1,744	205	103	2,052
Total functional expenses	\$ 211,899	\$ 35,165	\$ 10,148	\$ 257,212

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, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 369,719
Adjustment to reconcile change in net assets to net cash used by operating activities:	
Decrease in receivables	792
Increase in interest receivable	(3,092)
Increase in prepaid expenses	(1,657)
Increase in notes receivable	(1,853,693)
Decrease in accounts payable	(694)
Increase in accrued payroll tax liabilities	459
Increase in accrued interest payable	333
Increase in accrued vacation payable	1,959
Total adjustments	(1,855,593)
Net cash used by operating activities	(1,485,874)
CASH FLOWS FROM FINANCING ACTIVITIES	
Increase in notes payable	100,000
Net cash provided by financing activities	100,000
NET CHANGE IN CASH	(1,385,874)
CASH AT BEGINNING OF YEAR	3,485,014
CASH AT END OF YEAR	\$ 2,099,140

Supplemental information:

Cash paid for interest was \$30,500 for the year ended December 31, 2013

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

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, 2013

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

On January 1, 2013, the San Luis Obispo County Housing Trust Fund office lease was renegotiated and is now payable on a month-to-month basis. Total office lease payments for 2013 were \$9,888.

Concentration of Revenue Risk

The San Luis Obispo County Housing Trust Fund's bank accounts exceed the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NCUA) limits, which covers up to \$250,000 of the Organization's combined accounts per financial institution. As of December 31, 2013, the excess in deposits over the FDIC insurance limits and supplemental insurance offered by one credit union was \$356,203.

The Organization's two largest grants provided approximately 64% of the Organization's support. Interest and fee income covered 60% of total expenses.

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

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 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 line-of-credit was renewed on August 15, 2013. 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, 2019 and the current balance outstanding at December 31, 2013 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 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, 2013 was \$0. Interest rate is fixed at 2.25%.

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

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
The Erich & Hannah Sachs Foundation, for \$100,000, dated August 23, 2013, unsecured, interest is computed at 3.0% fixed rate, payable semi-annually, due date August 16, 2016.	-	100,000	100,000
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	\$ 25,000	\$ 1,200,000	\$ 1,225,000

SAN LUIS OBISPO COUNTY HOUSING TRUST FUND

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 5: NOTES PAYABLE (continued)

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>
2014	\$ 25,000	\$ 36,250	\$ 61,250
2015	250,000	32,250	282,250
2016	<u>950,000</u>	<u>17,125</u>	<u>967,125</u>
Totals	\$ <u>1,225,000</u>	\$ <u>85,625</u>	\$ <u>1,310,625</u>

NOTE 6: NET ASSETS

At December 31, 2013, net assets were restricted by donors or designated by the Organization as follows.

Unrestricted net assets:	
Designated for loan fund	\$ 1,004,678
Designated for loan losses	120,000
Designated for operating losses	150,000
Undesignated	<u>53,014</u>
Total unrestricted net assets	<u>1,327,692</u>
Restricted net assets:	
Temporarily restricted for loan funds	2,590,000
Permanently restricted for loan funds	<u>256,946</u>
Total restricted net assets	<u>2,846,946</u>
Total net assets	\$ <u>4,174,638</u>

CROSBY COMPANY, CERTIFIED PUBLIC ACCOUNTANT

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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, 2013, and the related notes to the financial statements and have issued my report thereon dated June 10, 2014

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.

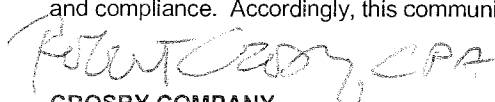
My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I 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.



CROSBY COMPANY
Certified Public Accountant
San Luis Obispo, California
June 10, 2014

See Independent Auditor's report