Rural Communities Housing Development Corporation ("RCHDC") is a California not-for-profit corporation which was incorporated in November 1975. RCHDC's mission is to provide decent, affordable housing to low and moderate income persons. The mission is accomplished through its self-help home ownership program and developing and managing multi-family low-income housing for the elderly and families.

Board of Directors

Name	Date Seated	Term Expires
William Thompson, Chairperson	March 11, 2005	December 2017
Raymond Hall, Vice Chairperson	September 28, 2009	December 2019
Charlotte Watkins, Secretary	October 25, 2010	December 2019
Gary Mirata, Treasurer	August 31, 2009	December 2017
Mark Rohloff	February 28, 2011	December 2017
Tom MonPere	February 27, 2012	December 2017
Aaron Lefebvre	October 30, 2012	December 2017
Tyler Rodrigue	December 3, 2013	December 2019
David Vilner	September 24, 2013	December 2015
Russell Beldon	July 30, 2013	December 2019

ADMINISTRATION
Brad McDonald – Chief Executive Officer
Tom Simms – Chief Financial Officer

ADDRESS OF CORPORATE OFFICE
499 Leslie Street
Ukiah, California 95482

CONTENTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Rural Communities Housing Development Corporation
Ukiah, California

Report on the Financial Statements

We have audited the accompanying consolidated statement of financial position of Rural Communities Housing Development Corporation and Affiliates ("Corporation") as of October 31, 2015 and the related consolidated statements of activities and 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 consolidated financial statements in accordance with accounting principles generally 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 these consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Rural Communities Housing Development Corporation and Affiliates as of October 31, 2015, and the results of their operations and changes in net assets, and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards* we have also issued our report dated April 28, 2016, on our consideration of Rural Communities Housing Development Corporation and Affiliates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rural Communities Housing Development Corporation and Affiliates' internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Columbus, Ohio
April 28, 2016

Employer ID: 31-0800053
Lead Auditor: Todd Fentress, CPA

Assets	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Totals**
Current Assets:				
Cash and cash equivalents	$ 3,314,811	$ -	$ 433,190	$ 3,748,001
Net tenant accounts receivable	13,317	-	-	13,317
Tenant assistance accounts receivable	102	-	-	102
Other accounts receivable	47,990	-	-	47,990
Due from related parties	1,058,654	-	-	1,058,654
Prepaid expenses	83,809	-	-	83,809
Total Current Assets	4,518,683	-	433,190	4,951,873
Deposits:				
Tenant security deposits held in trust	188,236	-	-	188,236
Self-Help construction deposits held in trust	1,300	-	-	1,300
Tax and insurance impounds	118,238	-	-	118,238
Replacement reserves	2,958,720	-	-	2,958,720
Other required reserves	901,760	-	-	901,760
Residual receipts reserves	695,406	-	-	695,406
Cash restricted for self-insurance plan	68,597	-	-	68,597
Total Deposits	4,932,257	-	-	4,932,257
Fixed Assets, net of Accumulated Depreciation	19,999,308	9,782,400	809,000	30,590,708
Other Assets:				
Long-term notes receivable	671,545	205,000	1,063,882	1,940,427
Developer notes receivable	1,279,969	-	-	1,279,969
Advances and investments in nonconsolidated affiliates	988,019	-	269,800	1,257,819
Land held for development	2,029,125	359,048	-	2,388,173
Development costs	2,826,768	977,377	400,000	4,204,145
Total Other Assets	7,795,426	1,541,425	1,733,682	11,070,533
Total Assets	$ 37,245,674	$ 11,323,825	$ 2,975,872	$ 51,545,371

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

	Unrestricted	Restricted	Restricted	Totals
Current Liabilities:				
Accounts payable and accrued liabilities	$ 748,204	$ -	$ -	$ 748,204
Residual receipts liability	317,087	-	-	317,087
Accrued interest payable	228,984	-	-	228,984
Current portion mortgages and notes payable	3,229,411	-	-	3,229,411
Deferred revenue	92,410	-	-	92,410
Total Current Liabilities	4,616,096	-	-	4,616,096
Long-Term Liabilities:				
Tenant security deposits	188,438	-	-	188,438
Self-Help construction deposits	1,300	-	-	1,300
Accrued interest payable	2,920,097	-	-	2,920,097
Mortgages and notes payable, net	32,563,361	-	-	32,563,361
Unamortized debt issuance costs	(734,950)	-	-	(734,950)
Total Long-Term Liabilities	34,938,246	-	-	34,938,246
Total Liabilities	39,554,342	-	-	39,554,342
Net Assets	(2,308,668)	11,323,825	2,975,872	11,991,029
Total Liabilities and Net Assets	$ 37,245,674	$ 11,323,825	$ 2,975,872	$ 51,545,371

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

Rural Communities Housing Development Corporation
Consolidated Statement of Activities and Changes in Net Assets
Year ended October 31, 2015

Revenues	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Net tenant rents	$ 1,915,120	$ -	$ -	$ 1,915,120
Tenant assistance payments	3,260,472	-	-	3,260,472
Other rents	254,278	-	-	254,278
Grant income	327,007	-	301,500	628,507
Interest income	58,366	-	-	58,366
Management fees and reimbursements	306,185	-	-	306,185
Operational revenue	614,985	-	-	614,985
Other revenue	234,232	-	-	234,232
Total Revenues	6,970,645	-	301,500	7,272,145
Expenses				
Administrative services	2,368,419	-	-	2,368,419
Utilities	735,025	-	-	735,025
Operating and maintenance:				
Operating expenses	938,207	-	-	938,207
Replacement reserve and residual receipt expenditures	122,108	-	-	122,108
Taxes and insurance	1,048,152	-	-	1,048,152
Interest expense	1,351,023	-	-	1,351,023
Unrealized loss on land development and notes receivable	55,713	-	-	55,713
Depreciation and amortization	1,195,579	-	-	1,195,579
Total Expenses	7,814,226	-	-	7,814,226
Change in Net Assets	(843,581)	-	301,500	(542,081)
Net Assets at the Beginning of the Year	(1,465,087)	11,381,325	2,674,372	12,590,610
Temporarily restricted grant liens released from sale of real estate	-	(57,500)	-	(57,500)
Net Assets at the End of the Year	$ (2,308,668)	$ 11,323,825	$ 2,975,872	$ 11,991,029

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

Cash Flows From Operating Activities	
Change in Total Net Assets from Operations	$ (542,081)
Adjustments to Reconcile Changes in Net Assets to Net cash From Operating Activities:	
Net present value of notes receivable	52,121
Increase in long-term accrued interest, net	60,182
Depreciation and amortization	1,195,579
Unrealized loss on land development and notes receivable	55,713
Release of grant liens from sale of real estate	(57,500)
Decrease (Increase) in:	
Net tenant accounts receivable	19,988
Tenant assistance accounts receivable	5,411
Other accounts receivable	(32,070)
Prepaid expenses	8,449
Increase (Decrease) in:	
Accounts payable and accrued liabilities	76,082
Residual receipts liability	10,326
Accrued interest payable	159,922
Deferred revenue	65,657
Net Cash From Operating Activities	1,077,779
Cash Flows From Investing Activities	
Decrease (Increase) in:	
Tenant deposits held in trust	(1,789)
Tax and insurance impounds	(5,864)
Replacement reserve	(139,617)
Other reserves	998,578
Residual receipts reserve	(60,893)
Cash restricted for self-insurance plan	1,195
Purchase of fixed assets	(3,410,750)
Decrease in due from related parties	33,984
Increase in long-term notes receivable	(163,663)
Developer notes receivable	29,184
Investment in nonconsolidated affiliates	9,703
Proceeds on sale of developed lots	841,209
Development costs	1,324,342
Net Cash From Investing Activities	(544,381)

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

Cash Flows From Financing Activities	
Principal payments on mortgages and notes payable	$ (905,246)
Net Cash From Financing Activities	(905,246)
Net Change in Cash and Cash Equivalents	(371,848)
Cash and Cash Equivalents, Beginning	4,119,849
Cash and Cash Equivalents, Ending	$ 3,748,001
Supplemental Disclosures	
Amounts paid for interest	$ 812,737
Non Cash Investing Activities	
Capitalized interest	$ 190,495

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

1. Organization

RCHDC is a California not-for-profit corporation that was incorporated in November 1975. The primary purpose of RCHDC is to develop, own and manage low-cost housing through the use of government financing, subsidies and other available resources to alleviate housing problems affecting low and moderate income families and to promote the welfare of the elderly and handicapped.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of RCHDC and its affiliates, as described below. Significant intercompany accounts and transactions have been eliminated in consolidation, as presented in the respective consolidating schedules. Intercompany transactions include management fees, accounting fees, and receivables and payables between related parties.

These consolidated financial statements include Funds 20, 21, 22, 70 and 90 of RCHDC, its owned housing projects, controlled housing projects, and investments in partnerships. All but one of the controlled housing projects are owned by separate corporations or limited liability companies, which share the same board of directors as RCHDC. One of the controlled housing projects is owned by a limited partnership in which both the general partner and the limited partner are not-for-profit corporations, which share the same board of directors as RCHDC. The controlled entities, other than housing projects, are generally corporations or limited liability companies, which share the same board of directors as RCHDC. Four of these controlled entities were formed to serve as general partners in limited partnerships, which own housing projects that are not consolidated in the financial statements. RCHDC also manages other housing projects with unrelated ownership that are not consolidated in these financial statements.

Financial data used for the consolidation of CC Seabreeze, LLC and CC Seagull Villa, LLC is as of October 31, 2015. There were no events or transactions either excluded or included that would have a significant effect on the consolidated financial statements.

Nonconsolidated Interests in Partnerships

RCHDC, through its controlled entities, holds 0.01% general partner interests in five limited partnerships which operate nine low income housing projects. Based on various provisions in the partnership agreements, the general partner does not have exclusive control, therefore, the general partner interests are accounted for under the cost method of accounting. Additionally, see Note 7 for disclosures regarding potential unanticipated obligations of RCHDC or its consolidated affiliates related to these partnerships. At October 31, 2014, RCHDC's investment in the five limited partnerships totaled $256,096 and is classified as "Advances and investment in nonconsolidated affiliates" in the Consolidated Statement of Financial Position.

Summary of Funds, Owned and Controlled Entities

The following summarizes the funds, owned entities and controlled entities that are included in these consolidated financial statements:

RCHDC Funds	**Fund Number**
Administrative Fund	Fund 20
Gibson Court 4 Apartments *	
Development Fund	Fund 21
Property Management	Fund 22
Home Ownership Fund	Fund 70
Self-Help Construction Trust Fund	Fund 90

RCHDC Owned Housing Projects	**Project Operations Included**
Cypress Ridge	Holly Heights II***
Holden Street	McCloud Motel Apartments
Holly Heights I***	Oak Hill Apartments

Controlled Entities	**Project Operations Included**
Pine Gardens I, Inc.	
CC Seabreeze, LLC	
CC Seagull Villa, LLC	
Autumn Village LLC	
Pine Gardens I, LLC	
Pine Gardens Holding 3 LLC	Creekside Village
	Sunshine Manor
	Walnut Village
PineGI Highlands Village, LLC	Highlands Village
PineGI Lakeview Apartments, LLC	Lakeview Apartments
PineGI Jack Simpson, LLC	Jack Simpson School View Apartments
PineGI North Shore, LLC	North Shore Villas
Redwood Court Property Corporation	
Redwood Court Property, A California Limited Partnership **	Redwood Court Apartments
Bevins Court Housing Corporation	Bevins Court Apartments
Gibson Court Housing Corporation	Gibson Court Apartments *
North Pine Street Senior Housing Corporation	North Pine Street Apartments
Red Bluff Senior Housing Corporation	Oak Park Manor
Siskiyou Gardens Inc.	Siskiyou Garden Apartments
Washington Court Senior Housing Corporation	Washington Court Apartments
Willits Senior Housing Corporation	Lenore Street Senior Housing

* Gibson Court Housing Corporation was only able to obtain funding to support 12 of the 16 units at Gibson Court Apartments, RCHDC provided the funding for the remaining 4 units. The Gibson Court 4 Apartments were transferred from Owned to Funds effective 10/1/2014.

** Limited Partnership in which Redwood Court Property Corporation is the general partner and Pine Gardens I, Inc. is the limited partner.

*** Holly Heights I and Holly Heights II were sold to a third party on March 16, 2016. See Note 18 for further detail.

Description of Funds

RCHDC maintains separate funds for each low-income housing project it owns and for each federal grant it administers. In addition to these funds, RCHDC maintains corporate, administrative and trust funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Resources are allocated to, and accounted for, in individual funds based upon the purposes for which they are intended. The corporate, administrative, operating and trust funds are grouped into categories as follows:

Administrative Fund (Fund 20)

Sources of revenue for Fund 20 generally include rental income from commercial real estate owned by RCHDC, accounting fees charged to some of the housing projects where appropriate, laundry revenue from contracts with many of the housing projects managed by RCHDC, and expendable grant income where appropriate. All administrative costs of managing RCHDC and its related entities as well as costs specifically related to the production of revenue such as corporate office fixed assets are charged to Fund 20.

Development Fund (Fund 21)

Fund 21 is used to acquire and develop land for proposed Self-Help projects and for low-income family, special needs and elderly housing projects. Revenues for Fund 21 generally include grant income designated for specific projects or developer fees associated with the completion and lease-up of new or rehabilitated low-income housing projects.

Property Management Fund (Fund 22)

Revenues for Fund 22 generally include property management fees from both affiliated and unaffiliated low-income housing projects that are managed by RCHDC. All direct costs of property management are charged to Fund 22.

Home Ownership Fund (Fund 70)

Fund 70 administers the USDA and HCD Technical Assistance grant funds as well as NeighborWorks grant funds to support the Self-Help families. Therefore, all costs associated with the oversight and management of the Self-Help program are charged to Fund 70. Additionally, costs associated with the Home Ownership Center and related revenue for classes and grant income are charged to Fund 70.

Self-Help Construction Trust Fund (Fund 90)

Fund 90 is a trust account used to account for the Self-Help construction costs for each family. Costs incurred in excess of budget are charged to the individual family responsible for the cost overrun. Although RCHDC manages the assets and liabilities in Fund 90 on behalf of the families building their homes these assets and liabilities do not accrue to RCHDC, and therefore, are not consolidated in the financial statements.

Basis of Accounting

RCHDC uses the accrual basis of accounting. Under the accrual basis of accounting revenues are recognized when earned and expenses are recognized when incurred. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenditures are reported as decreases in unrestricted net assets.

Net Asset Classifications

Unrestricted Net Assets are those currently available for use of the organization, as determined by the management and board of directors as appropriate.

Temporarily Restricted Net Assets are those received with donor stipulations that limit the use of the donated assets. Once the donor stipulations have been met, these net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets are those contributed with donor stipulations that permanently limit the use of the donated assets for the purpose intended by the donor.

Cash and Cash Equivalents

For purposes of the statements of cash flows, RCHDC considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents as of October 31, 2015.

Noninterest-bearing accounts will be added to any of a depositor's other accounts in the applicable ownership category, and the aggregate balance insured is up to at least the Standard Maximum Deposit Insurance amount of $250,000 per depositor, at each separately chartered bank. As of October 31, 2015, RCHDC's Funds, Owned Projects and Controlled Entities held cash in banks in excess of amounts insured by the FDIC approximated $2,260,589.

Tenant Receivable and Bad Debt Policy

Tenant receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method. Included in expenses are bad debts of $26,083 for the year ended October 31, 2015.

Tenant Deposits Held in Trust

Tenant security deposits are segregated and held in trust in a separate bank account in the name of the respective housing project.

Fixed Assets

Fixed assets are valued at acquisition cost. Major additions are capitalized as they are placed in service, and minor improvements, which do not extend the useful life of the asset, are expensed in the period incurred. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets, which range from five to forty years.

Reserves

The low-income housing projects obtain federal, state and local funding which require certain reserves to be maintained in separate federally insured bank accounts. These accounts include tax and insurance impounds, replacement reserves, other required reserves and residual receipts reserves. Additionally, as disclosed in Note 5, Savings Bank of Mendocino County has a security interest in certain replacement and other required reserves. Use of these funds are restricted as defined in the corporate, partnership, debt and regulatory agreements and therefore, have been excluded from cash in the accompanying Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows.

Grants

RCHDC receives various grants to assist with the development of specific projects and programs. Capital grants and expendable grants are received from NeighborWorks America, a sponsoring organization of RCHDC. These funds are used to assist with the development of affordable housing projects, improvements in management and planning of new programs and projects for the benefit of low-income families and seniors. The NeighborWorks America grant receipts and related expenditures are reported in Note 9 to these consolidated financial statements.

Grant Liens

RCHDC regularly receives funds from various governmental or non-profit agencies in the form of non-interest bearing mortgages secured by deeds of trust related to the development of affordable housing, subject to regulatory agreements or other restrictions that require the properties to remain affordable to low-income residents for extended periods of time. RCHDC records such advances as temporarily restricted net assets. Upon full satisfaction of the affordability restrictions and the reconveyance of the deeds of trust by the granting agencies, the face amount of these liens are reported as grant income.

Notes Receivable

As described in Note 3, RCHDC obtains funding from various external and internal sources to loan funds to individuals that qualify for self-help programs to purchase homes. The notes receivable agreements are subordinate to the first mortgage and other third party financing that has priority. The payment terms vary from 1) fully forgiven providing the buyers continue to reside in the homes for 20 to 30 years, 2) deferred for 5 or more years with payment of principal and interest 3) deferred until the first mortgage is paid in full. At October 31, 2015, RCHDC has a reserve for forgivable loans of $603,487 and net present value reserve of $756,731.

RCHDC has advanced funds to Pine Gardens II, Inc. (“PGII”) totaling $967,000 as of October 31, 2015. PGII then loaned the funds to unconsolidated real estate partnerships. The advance is unsecured and bears no interest.

Additionally, as described in Note 6, RCHDC has provided seller financing in the sale of four owned projects. RCHDC also enters into developer notes receivable. RCHDC considers the notes receivable related to low-income housing to be performing in accordance with the low-income housing tax credit programs for real estate investment. These notes receivable will be repaid either from the cash flow of the properties or the ultimate outcome and valuation of the transfer of the property at year 15 which is used to settle any unpaid amounts due. These notes receivable are due based on the cash flow of the tax credit projects and, therefore, are not considered past due based on the RCHDC’s policy and terms for these advances. As of October 31, 2015, no allowance for uncollectible accounts is deemed necessary.

Development Costs and Revenue Recognition

Development costs are recorded on a site-specific basis. Development costs include all expenditures necessary to complete a project including but not limited to the purchase price of land, escrow and closing costs, environmental remediation, predevelopment costs, legal and other consulting fees, architecture and engineering costs, entitlement costs, governmental fees and permits, construction and supervision costs, and interest costs during the development process. Development costs are capitalized as construction in process until the completed project is placed in service, at which time construction in process is reclassified to land and buildings subject to depreciation, for reporting purposes.

Development costs are capitalized and proportionately allocated at sale. Developments which experience lot sales in more than one fiscal period reflect lower development costs when the first lots are sold and higher development costs as the last lots are sold.

Fixed Asset, Land Held for Development, and Development Costs Impairment

RCHDC reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the estimated proceeds from the eventual disposition of the real estate or recent appraisals. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. For the year ended October 31, 2015, RCHDC there was no net impairment loss recorded. RCHDC may in the future sell certain real estate for less than the carrying value or determine that future events would indicate additional impairment.

Unamortized Debt Issuance Costs

Loan costs totaling $769,719 for mortgage financing are amortized using the straight-line method of amortization over the term of the mortgage. Accounting principles generally in the United States of America require that the effective yield method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method. As of October 31, 2015, accumulated amortization totaled $34,769. The estimated amortization expense for each of the next five years will be approximately $23,000.

Income Taxes

RCHDC and the majority of its controlled corporations are exempt from Federal and California income taxes as they are organized as a not-for-profit corporations exempt under Federal and California Code Sections 501(c)(3) and 23701(d), respectively. Redwood Court Properties, A California Limited Partnership; CC Seabreeze, LLC and CC Seagull Villa, LLC, Pine Gardens Holding 3, LLC, Autumn Village, LLC, PineGI Highlands Village, LLC, PineGI Lakeview Apartments, LLC, and Pine GI Jack Simpson, LLC are pass-through entities with not-for-profit general partners and managing members, and are treated as exempt organizations for Federal and California income tax purposes per IRS ruling.

RCHDC and affiliates account for uncertainty in income taxes in accordance with Accounting Standards Codification (“ASC”) for Income Taxes. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Fair Value of Financial Instruments

RCHDC considers the recorded value of its financial assets and liabilities, which consist primarily of cash, accounts receivable, accounts payable and accrued expenses, to approximate the fair value of the respective assets and liabilities at October 31, 2015 based upon the short-term nature of the assets and liabilities.

Notes receivable are recorded at their net realizable value using the applicable federal rate as of the date of the note agreement and the term period.

There has been no significant change in interest rates available to RCHDC. Therefore, the fair value of mortgages and notes payable approximates carrying value.

Fair Value Measurements of Assets and Liabilities

The accounting guidance for "Fair Value Measurements and Disclosures" establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2. When quoted market prices are not available, pricing may be completed using comparable securities, dealer values, operating data and general market conditions to determine Fair value. Valuation models utilize various inputs such as commodity, interest rate and, to a lesser degree, volatility or credit that include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, market corroborated inputs (i.e. inputs derived principally from, or correlated to, observable market data) and other observable inputs for the asset or liability.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from these estimates.

3. <u>Notes Receivable</u>

In assisting eligible individuals and facilitating the development or rehabilitation of low-income multifamily housing, RCHDC has provided assistance in the form of purchase money loans, which are secured by junior deeds of trust on real estate. Terms vary, but generally fall into one of the following categories:

Fund 21:

1. Loans are for a period of 30 years accruing interest at 4% per annum and do not require repayment until they mature or the homeowner sells the property.

2. Loans are for a period of 30 years accruing interest at 4% to 5% per annum. Monthly interest and principal payments are required beginning in the sixth year until the loan is fully amortized at the end of the 30 year term or prepaid in accordance with its terms.

3. Fund 21 has $70,000 of notes receivable due from CC Seabreeze, L.P. as well as $85,000 of notes receivable due from CC Seagull Villas, L.P. The funds were loaned to these two partnerships for the rehabilitation of three low-income housing apartments in Crescent City. The loans are secured and do not accrue interest and are due on May 31, 2066, and September 30, 2066, respectively.

4. Loans with 30 year terms were made to homeowners. The loans bear no interest during the first ten years and accrue 3% simple interest thereafter for the next twenty years. Monthly payments of principal and interest commence in the sixteenth year such that all outstanding principal and accrued interest is fully amortized by the end of the 30 year term. The loans are secured by trust deeds on the properties.

3. Notes Receivable (Continued)

5. Loans with 30 year terms were made to homeowners. The terms of these loans give RCHDC a share in the appreciation of the affordable housing that they help finance. The loans do not bear interest and require no payments unless the properties subject to the liens are sold prior to their maturity dates. The loans are secured by trust deeds on the properties. RCHDC's share of appreciation is reduced by 5% per year beginning in the eleventh year of each loan such that there shall be no amounts due to RCHDC provided the properties are held for the full 30 year terms of the loans. RCHDC's policy is to provide a valuation allowance equal to the face amount on these notes since the present value of the notes cannot be readily determined.

6. Fund 21 has entered into a note receivable with Autumn Village Associates, LP for $124,623 to finance rehabilitation. The note bears interest at a rate of 3.36% compounded annually. There are no required payments for principal and interest until the due date of the note on December 31, 2044. As of October 31, 2015, accrued and unpaid interest totaled $7,434. The note receivable is secured by the real estate collateral pledged.

See note 6 for additional notes receivable from seller financing of four previously owned projects. Due to the long-term nature of these loans, minimal principal payments are expected during the year ended October 31, 2015.

4. Fixed Assets

Fixed assets, net of accumulated depreciation, consists of the following as of October 31, 2015:

	Beginning Balance	Additions	Deductions	Ending Balance
Fixed Assets:				
Land and improvements	$ 2,568,546	$ -	$ -	$ 2,568,546
Building and improvements	45,170,861	2,799,351	-	47,970,212
Office furniture and equipment	888,883	611,168	(8,338)	1,491,713
Total Fixed Assets	48,628,290	3,410,519	(8,338)	52,030,471
Accumulated Depreciation	(20,275,704)	(1,172,397)	8,338	(21,439,763)
Fixed Assets, Net	$ 28,352,586	$ 2,238,122	$ -	$ 30,590,708

5. Long-Term Debt

Long-term debt consists of the following at October 31, 2015:

FUNDS

Administrative Fund (Fund 20)	
United States Department of Agriculture, Rural Development Mortgage for $750,000 at 4.375% annual interest secured by RCHDC's principal offices on Leslie Street in Ukiah. Payments of principal and interest of $3,315 monthly for forty years, due May 18, 2044. As of October 31, 2015, accrued interest totaled $2,400.	$ 658,254
Development Fund (Fund 21)	
Redevelopment Agency, City of Ukiah loan to be repaid when primary financing is obtained. This note is unsecured and is non-interest bearing.	18,000
Redevelopment Agency, City of Ukiah loan requiring an annual payment of $500, payable through September 1, 2032. This note is unsecured and is non-interest bearing.	19,000
City of Ukiah loan originally due on December 31, 1999, including simple interest at 3%. This note is unsecured. This note has been extended by the City until called. As of December 31, 2014, accrued interest totaled $79,962.	115,200
Redevelopment Agency, City of Ukiah loan originally due on September 26, 1999, including simple interest at 3%. This note is unsecured. This note has been extended by the City until called. As of October 31, 2015, accrued interest totaled $19,801.	36,500
Savings Bank of Mendocino County loan for land development costs associated with the Lake Mendocino Drive Self-Help property in the maximum amount of $1,500,000 at 7% interest. Interest is payable on the loan monthly in arrears and all unpaid principal and interest was originally due on or before July 21, 2009. This note is secured. This note has been extended until February 27, 2017.	746,000
California Department of Housing & Community Development note through the Joe Serna, Jr. grant program dated October 21, 2009. The note is non-interest bearing and principal payments are to be repaid upon the sale of a lot in increments of $19,455.	123,451

5. Long-Term Debt (Continued)

California Department of Housing and Community Development loan of $800,000 secured by Self-Help property on North State Street (Contract #03-PDL-34), originally due June 30, 2008, bearing interest at 3%. This note is secured by a deed of trust. The note has been extended to June 30, 2020, as amended. As of October 31, 2015, accrued interest totaled $268,000.	800,000
Savings Bank of Mendocino County $1,829,520 promissory note secured by property at Brush Street originally due October 1, 2007. Interest is fixed at 5.75% and is payable monthly. $484,935 was paid down during the fiscal year ended October 31, 2008 from the $500,000 Neighborworks loan. This note has been extended to April 1, 2016 with monthly payments of principal and interest of $9,373.	1,242,639
Neighborworks Capital Corporation loan in the amount of $500,000 for Orr Creek Commons (Brush Street property) with interest at 5% per annum payable interest only at the end of each quarter in arrears. The note has been extended until December 31, 2017, and the interest rate has been increased to 5.5%. All unpaid principal and interest is due on or before December 31, 2017. This note is secured.	286,000
California Department of Housing and Community Development unsecured note dated August 11, 2008, in the amount of $100,000 (Contract #07-PDL-69) for predevelopment costs related to Orr Creek Commons in the City of Ukiah. The note accrues simple interest of 3% and is repayable on or before July 31, 2020, as amended. As of October 31, 2015, accrued interest totaled $16,652.	100,000
Rural Community Assistance Corporation ("RCAC") promissory note, not to exceed $500,000 bearing 5% interest with principal and accrued interest originally due on September 1, 2008. This note has been extended until September 1, 2016, and the interest rate has been increased to 6.25% from March 1, 2011 to March 1, 2012. This note is secured. As of October 31, 2011, the entire balance of the loan has been drawn and interest only payments are paid monthly. The note was amended in 2015 to reduce the interest payments to 50% of the required monthly payment and allow RCHDC to capitalize the remaining 50%. As of October 31, 2015, accrued interest totaled $43,771.	500,000
California Department of Housing and Community Development secured by deed of trust on the Lake Mendocino Drive property. The note is in the amount of $560,000 originally due November 30, 2009. The note has been extended to November 30, 2013, or upon permanent financing or upon transfer of any property security note: whichever is first. The note bears interest at 3% until forgiven incrementally as individual lots are sold. RCHDC pays $18,667 toward principal per lot sold. The note converts to a grant upon sale of lots to families. As of October 31, 2015 accrued interest totaled $18,027.	43,667

5. Long-Term Debt (Continued)

Housing Assistance Council notes in the aggregate amount of $1,097,733 on Lake Mendocino Drive Self-Help property at interest rates of 5% with a range of maturity dates through December 2014. RCHDC is actively working with the Housing Assistance Council on an extension of these notes. The notes are secured by the properties. As of October 31, 2015, accrued interest totaled $49,355.	998,647
Redevelopment Agency, City of Ukiah loan dated April 20, 2010. The note is unsecured and non-interest bearing. Payments of principal must be made from residual receipts as required by the Agency under the terms of the Regulatory Agreement.	15,000
	$ 5,702,358

OWNED PROJECTS

Cypress Ridge is financed with two mortgage notes of $1,500,000 and $50,000, totaling $1,550,000, with the United States Department of Agriculture, Farmers Home Administration (FmHA) under Section 515 of the National Housing Act of 1959. The mortgage note bears interest at the rate of 9.0% per annum, payable in 588 equal monthly installments (49 years) of principal and interest of $11,780 through November 12, 2029. The mortgage note is secured by the apartment project. In addition, there is an interest subsidy from Rural Development associated with these mortgages that reduces the effective interest rate to 7.0%. The subsidy is not recorded on the Project's books as income or expense and reduces the actual monthly payments by RCHDC to $9,362. As of October 31, 2015, interest subsidy totaled $17,345 and accrued interest totaled $5,711.	$ 978,981
Cypress Ridge rehabilitation is financed with a note from the City of Fort Bragg for $225,000 that accrues interest at 3% per annum and requires repayment from residual receipts, as defined by the regulatory agreement. Principal and interest shall be due and payable on or before March 1, 2065. The note is secured by the assignments of rents and revenues. As of October 31, 2015, accrued interest totaled $43,601.	225,000
Cypress Ridge rehabilitation is also financed with a mortgage note from the California Department of Housing and Community Development ("HCD") under the Home Investment Partnership's ("HOME") Program, dated July 14, 2004 for a maximum amount of $983,026 (Contract #03-HOME-0687). The note accrues simple interest of 3% per annum and requires repayment from residual receipts, as defined in the regulatory agreement, commencing the last day of the initial operating year following the completion of rehabilitation. The unpaid principal and accrued interest are due in full on or before the 55th anniversary of the note. The note is secured by a Deed of Trust against the Project. As of October 31, 2015, accrued interest totaled $194,281.	908,215

5. Long-Term Debt (Continued)

Holden Street is financed with a mortgage note of $293,000 with HUD, under Section 202 of the National Housing Act of 1959. The mortgage note bears interest at the rate of 9.25% per annum and is being repaid in 454 equal monthly installments of principal and interest of $2,334 payable through October 1, 2020. The mortgage note is secured by the apartment project. As of October 31, 2015, accrued interest totaled $847.	109,903
Holly Heights I is financed with two mortgage notes of $125,000 and $670,000, totaling $795,000, with RD under Section 515 of the National Housing Act of 1959. The mortgage notes bear interest at the rate of 8.0% per annum, payable in 468 equal monthly installments (39 years) of principal and interest of $5,550 through October 1, 2017. In addition, there is an interest subsidy from RD associated with these mortgages that reduces the effective interest rate to 6.0%. The subsidy is not recorded on the Project's books as income or expense and reduces the actual monthly payments by the Project to $4,405. Effective October 1, 2015, in accordance with a loan re-amortization agreement entered into with FmHA, the principal and interest are due and payable in monthly installments of $1,322 on the first of each month, commencing October 1, 2015. The interest subsidy is deducted monthly by RD directly from the contract payments and is estimated at $603 for the year ended October 31, 2015. As of October 31, 2015, accrued interest totaled $187.	28,063
Holly Heights I received additional financing with a mortgage note of $238,636 with HCD for new construction and rehabilitation projects under the HOME Program. The mortgage note accrues simple interest at the rate of 3% per annum. The mortgage note is secured by the apartment project. As of October 31, 2015, accrued interest totaled $86,346.	238,636
Holly Heights II is financed with two mortgage notes of $664,632 and $105,726, totaling $770,358, with FmHA under Section 515 of the National Housing Act of 1959. The mortgage note contracts bear interest at the rate of 11.875% per annum, payable in 548 equal monthly installments of principal and interest of $7,658 through November 2034. In addition, there is an interest subsidy from Rural Development ("RD") associated with these mortgages that reduces the effective interest rate to 1.0%. The subsidy is not recorded on the Project's books as income or expense and reduces the actual monthly payments by the Project to $1,752. The interest subsidy is deducted monthly by RD directly from the contract payments and for the year ended October 31, 2015 amount to $71,103. As of October 31, 2015, accrued interest totaled $956.	691,991
Holly Heights II received additional financing with a mortgage note of $178,928 with the Department of Housing & Community Development for new construction and rehabilitation projects under the HOME Program. The mortgage note contract bears simple interest at the rate of 3% per annum. The mortgage note is secured by the project. As of October 31, 2015, accrued interest totaled $65,040.	178,928

5. Long-Term Debt (Continued)

McCloud Motel Apartments is financed with a promissory note from the Housing Assistance Council. The note accrues interest at 5%. The entire balance of principal and accrued interest is due and payable on December 31, 2011. The note has been extended until March 31, 2014. The note is secured by a First Deed of Trust. As of October 31, 2015, accrued interest totaled $147,842.	799,785
Oak Hill Apartments is financed with three mortgage notes originated on October 28, 2004, in the original amounts of $2,500,000, $1,100,000 and $400,000 with the United States Department of Agriculture, Rural Development under Section 514 Labor Housing of the Title V of the Housing Act of 1949. The mortgage notes bear interest at the rate of 1% per annum and payable in monthly installments of $13,205 of principal and interest over the over the thirty-three year term of the loans through October 28, 2037. The note is secured by the apartment project. As of October 31, 2015, accrued interest totaled $2,609.	3,131,254
Oak Hill Apartments was also financed with a note, secured by a deed of trust, originated on June 1, 2005, in the original amount of $3,442,000 from the Home Investment Partnerships Program ("HCD-HOME") through the California Department of Housing and Community Development. The note calls for simple interest at the rate of 3% per annum to accrue on the unpaid principal amount of the note. Payments are required pursuant to the terms of the mortgage note equal to residual receipts after the Developer Fee Note has been paid in full as well as Asset Management Fees not to exceed $12,000 per year. Thereafter, all unpaid principal and interest are payable at the maturity date for this mortgage note on June 1, 2060. As of October 31, 2015, there were no payments made under the terms of this mortgage note. As of October 31, 2015, accrued interest totaled $1,087,808.	3,442,000
	$10,732,756

CONTROLLED ENTITIES

Bevins Court is financed with a promissory note of $100,000 from the County of Lake. The note matures in January 2044 and bears interest on unpaid principal of 2%. Interest is deferred from January 15, 2003, and will be repaid in 37 equal installments of $4,236 beginning January 15, 2008. Annual payments of interest and principal shall be made from "residual receipts" as determined by HUD, or from the Project's own funds. No payments of principal are due before 2014. The promissory note is secured by the apartment project. As of October 31, 2015, accrued interest totaled $11,718.	$ 100,000

5. Long-Term Debt (Continued)

PineGI North Shore, LLC is financed with a mortgage note in an original amount of $1,879,000 with Lancaster Pollard Mortgage Company, insured by HUD under Section 207 pursuant to Section 223(f). The mortgage note is payable in monthly installments of $8,753 at an interest rate of 4.38% and a term of 35 years, maturing in March 2049. The mortgage liability of the Company is limited to the underlying value of the real estate collateral pledged plus other funds deposited with the mortgage lender. The mortgage note is secured by the apartment project, assignment of rents and certain escrows as defined in the security agreements. As of October 31, 2015, accrued interest totaled $6,723.	1,841,787
Gibson Court is also financed with a promissory note from HOME through the California Department of Housing and Community Development Program. The note is for $758,824, matures in May 2031 and bears annual interest of 3%. Annual payments of interest and principal shall be made only from "residual receipts" approved by HUD for any particular year. All other terms and conditions of the note default to the provisions of HUD Section 811. The promissory note is secured by the apartment project. As of October 31, 2015, accrued interest totaled $184,012.	758,824
PineGI Lakeview Apartments is financed with a mortgage note in an original amount of $2,326,900 with Lancaster Pollard Mortgage Company, insured by HUD under Section 207 pursuant to Section 223(f). The mortgage note is payable in monthly installments of $10,840 at an interest rate of 4.38% and a term of 35 years, maturing in March 2049. The mortgage liability of the Company is limited to the underlying value of the real estate collateral pledged plus other funds deposited with the mortgage lender. The mortgage note is secured by the apartment project, assignment of rents and certain escrows as defined in the security agreements. As of October 31, 2015, accrued interest totaled $8,334.	2,280,817
PineGI Jack Simpson, LLC is financed with a mortgage note in an original amount of $2,110,800 with Lancaster Pollard Mortgage Company, insured by HUD under Section 207 pursuant to Section 223(f). The mortgage note is payable in monthly installments of $9,833 at an interest rate of 4.38% and a term of 35 years, maturing in March 2049. The mortgage liability of the Company is limited to the underlying value of the real estate collateral pledged plus other funds deposited with the mortgage lender. The mortgage note is secured by the apartment project, assignment of rents and certain escrows as defined in the security agreements. As of October 31, 2015, accrued interest totaled $7,552.	2,068,996

5. Long-Term Debt (Continued)

Washington Court is financed with a promissory note from California Department of Housing and Community Development HOME. The original note was for $202,720, matures in August 2031 and bears annual interest of 3%. Annual payments of interest and principal shall be made only from "residual receipts" approved by HUD for any particular year. No payments shall be required from this promissory note in the absence of residual receipts. The promissory note is secured by the apartment project. All other terms and conditions of the note default to the provisions of HUD Section 202. As of October 31, 2015, accrued interest totaled $85,096.	202,720
PineGI Highlands Village is financed with a mortgage note in an original amount of $2,224,400 with Lancaster Pollard Mortgage Company, insured by HUD under Section 207 pursuant to Section 223(f). The mortgage note is payable in monthly installments of $10,362 at an interest rate of 4.38% and a term of 35 years, maturing in March 2049. The mortgage liability of the Company is limited to the underlying value of the real estate collateral pledged plus other funds deposited with the mortgage lender. The mortgage note is secured by the apartment project, assignment of rents and certain escrows as defined in the security agreements. As of October 31, 2015, accrued interest totaled $7,958.	2,180,346
Redwood Court is financed with a mortgage note of $1,854,944, with FmHA under Section 515 of the National Housing Act of 1949. The mortgage note bears interest at the rate of 9.0% per annum, payable in 600 equal monthly installments (50 years) of principal and interest of $14,072 through July 2, 2037. The mortgage note is secured by the apartment. In addition there is an interest subsidy from RD associated with this mortgage that reduces the effective interest rate to 1%. The subsidy is recorded on the Partnership's books as income and expense and reduces the actual monthly payments by the Partnership to $4,098. The interest subsidy is deducted monthly by RD directly from the contract payments. For the year ended October 31, 2015, interest subsidy totaled $120,478. As of October 31, 2015, accrued interest totaled $1,888.	1,608,228
Redwood Court is also financed with a second mortgage note of $76,923 with FmHA on January 23, 1992 for the purpose of landscaping and installing playground equipment. The mortgage note bears interest at the rate of 8.25% and is payable in 600 equal monthly installments (50 years) of principal and interest of $538 through February 1, 2042. The mortgage note is secured by the equipment. As of October 31, 2015, accrued interest totaled $100.	68,369
Redwood Court is also financed with a mortgage note secured by a Deed of Trust on the apartment project from the California Department of Housing and Community Development HOME Program in the amount of $2,987,557. The full amount of this loan funded in favor of the Partnership on September 15, 2008. The note bears interest at the rate of 3% per annum, and is repayable in 35 years. As of October 31, 2015, accrued interest totaled $507,902.	2,987,557

5. Long-Term Debt (Continued)

Redwood Court is also financed with a mortgage note secured by a deed of trust from the Fortuna Redevelopment Agency pursuant to a Promissory Note and Loan Agreement in the amount of $200,000. This Promissory Note bears interest at the rate of 3% per annum, simple interest, and is payable in full together with accrued and unpaid interest at its maturity on September 1, 2063. The terms of this loan include an affordability restriction on the units within the property by which the loan is secured that runs the full 55 year term of the loan. The proceeds from this loan were advanced to Pine Gardens I, Inc. so that Pine Gardens I, Inc. could acquire the limited partnership interest in the Partnership from Beech Villa Ltd. effective August 29, 2008. As of October 31, 2015, accrued interest totaled $41,386.	200,000
Creekside Village is financed with a mortgage note of $2,265,000 with Savings Bank of Mendocino County. The mortgage note bears interest at the rate of 5.75% per annum and is being repaid in 360 equal monthly installments of principal and interest of $13,218 payable, commencing August 1, 2012 through August 1, 2042. This mortgage is secured by the project reserves and rental property. As of October 31, 2015, accrued interest totaled $10,362.	2,159,832
Creekside Village is also financed with a promissory note from Rural Communities Housing Development Corporation. The note is non-interest bearing. The entire balance of principal is due and payable on August 16, 2067. The note is secured by a Second Deed of Trust.	1,402,885
Sunshine Manor is financed with a mortgage note of $1,087,500 with Savings Bank of Mendocino County. The mortgage note bears interest at the rate of 5.75% per annum and is being repaid in 360 equal monthly installments of principal and interest of $6,346 payable, commencing August 1, 2012 through August 1, 2042. This mortgage is secured by the project reserves and rental property. As of October 31, 2015, accrued interest totaled $4,976.	1,038,383
Sunshine Manor is also financed with a promissory note from Rural Communities Housing Development Corporation. The note is non-interest bearing. The entire balance of principal is due and payable on August 16, 2067. The note is secured by a Second Deed of Trust. See Note 6 for seller financing note payable.	788,137
Walnut Village is financed with a mortgage note of $1,950,000 with Savings Bank of Mendocino County. The mortgage note bears interest at the rate of 5.75% per annum and is being repaid in 360 equal monthly installments of principal and interest of $11,380 payable, commencing August 1, 2012 through August 1, 2042. This mortgage is secured by the project reserves and rental property. As of October 31, 2015, accrued interest totaled $8,921.	1,861,799

5. Long-Term Debt (Continued)

Walnut Village is also financed with a promissory note from Rural Communities Housing Development Corporation. The note is non-interest bearing. The entire balance of principal is due and payable on August 16, 2067. The note is secured by a Second Deed of Trust. See Note 6 for seller financing note payable.	1,870,054
	23,418,734
Less: Seller financed notes payable eliminated in consolidation	(4,061,076)
	$19,357,658

Changes in long-term debt for the year ended October 31, 2015 is as follows:

	Beginning Balance	Additions	Reductions	Consolidating Entries	Ending Balance
Funds	$ 6,163,750	$ -	$ 461,392	$ -	$ 5,702,358
Owned projects	10,966,939	-	234,183	-	10,732,756
Controlled entities	23,656,377	-	237,643	(4,061,076)	19,357,658
Totals	$ 40,787,066	$ -	$ 933,218	$ (4,061,076)	$ 35,792,772

Aggregate maturities required on the mortgages payable as of October 31, 2015 is as follows:

For the Year Ended October 31:	Funds	Owned	Controlled	Total
2016	$ 1,706,218	$ 1,015,798	$ 221,395	$ 2,943,411
2017	1,541,365	222,966	234,445	1,998,776
2018	759,272	217,504	247,590	1,224,366
2019	13,842	226,337	261,524	501,703
2020	14,438	232,824	276,308	523,570
Thereafter	1,667,223	8,817,327	18,116,396	28,600,946
	$ 5,702,358	$ 10,732,756	$ 19,357,658	$ 35,792,772

6. Seller Financing for Notes Receivable and Notes Payable

RCHDC provided seller financing as follows:

Sunshine Village	$ 788,137
Walnut Village	$ 1,870,054
Creekside Village	$ 1,402,885

As described in Note 5, the seller financed notes payable bear no interest, are secured by First Deeds of Trust and principal is due and payable on August 16, 2067. The notes receivable and notes payable have been eliminated in consolidation.

In 2012, RCHDC sold McCarty Manor to McCarty Manor Associates LP providing seller financing totaling $725,805. The note receivable bears interest of 2.36%, secured with a Deed of Trust and principal and interest are due and payable on October 1, 2067. Payments of principal and accrued interest are due beginning November 1, 2013 with annual payments totaling 75% of Residual Receipts as defined in the note receivable agreement.

7. Commitments and Contingencies

As described in Note 2, RCHDC holds or maintains the General Partner ("GP") interest in five Limited Partnerships, which own a total of nine low-income apartment developments.

These GP entities have certain ongoing obligations, with respect to the partnerships in which they are involved, as follows:

A) Pine Gardens I, Inc. has the following ongoing obligations related to Clara Court, L.P. ("Clara"):

i) Pine Gardens I, Inc. is required to establish a separate Operating Reserve Account in the amount of $105,000 for Clara. This reserve has been funded.

ii) Pine Gardens I, Inc. has pledged to lend Clara any operating loans to fund operating deficits incurred by Clara during the period commencing at rental achievement and expiring 60 months thereafter. No funds have been advanced to the Partnership pursuant to this agreement.

iii) Pine Gardens I, Inc. is required to make capital contributions to Clara to compensate the limited partner for any ongoing shortfall in the tax credits which are hereinafter expected to accrue for the benefit of the limited partner.

Pine Gardens I, Inc. is required to make capital contributions for the portion of the Development Fee Note that remains unpaid by the thirteenth anniversary of the completion of the construction of Clara.

vi) Pine Gardens I, Inc. is required to purchase the limited partner's interest in Clara for the total amount of capital contributions contributed by the limited partner plus any expenses incurred by the limited partner, based upon the occurrence of various specified events related to the failure of Clara to achieve the anticipated results. The management of Clara believes that it is highly unlikely that the GP will have any liability related to this obligation.

B) Pine Gardens I, Inc. has the following ongoing obligations related to Orchard River Associates, L.P. ("Orchard") and the three apartment projects it owns:

i) Pine Gardens I, Inc. together with RCHDC, is required to maintain an aggregate net worth of not less than $500,000.

ii) Pine Gardens I, Inc. is required to establish segregated Operating Reserve Accounts for each project as follows:

Orchard Manor Apts.	$80,250
Orchard Village Apts.	$70,500
River Gardens Apts.	$67,000

These reserves were funded during the year ended October 31, 2013.

7. <u>Commitments and Contingencies (Continued)</u>

iii) Pine Gardens I, Inc. has guaranteed to fund the operating deficits of each project until each project has achieved a Debt Service Coverage Ratio of 1.15 to 1.00, and then for an additional sixty (60) consecutive months up to an aggregate amount of $788,925 after the segregated Operating Reserve Accounts have been exhausted.

iv) Pine Gardens I, Inc. is required to make capital contributions to the partnership to compensate the limited partner for any ongoing shortfall in the tax credits which are hereinafter expected to accrue for the benefit of the limited partnership.

v) Pine Gardens I, Inc. is required to make a capital contribution for the portion of the Developer Fee Note for each project that remains unpaid as of the end of the twelfth year following the completion of the rehabilitation of each project.

vi) Pine Gardens I, Inc. is required to purchase the limited partner's interest in Orchard for the total amount of capital contributions contributed by the limited partner plus any expenses incurred by the Limited Partner, based upon the occurrence of various specified events related to the failure of the projects to achieve the anticipated results. The management of Orchard believes that it is highly unlikely that they GP will have any liability related to this obligation.

C) CC Seabreeze, LLC (“Seabreeze”) and CC Seagull Villa, LLC (“Seagull”) have the following ongoing obligations related to the respective partnerships in which they have an interest and the related projects that these partnerships own:

i) Seabreeze and Seagull have guaranteed to fund the operating deficits of each project until each project has achieved a Debt Service Coverage Ratio of 1.10 to 1.00, and then for an additional three (3) consecutive years up to the following total amounts:

Seabreeze Apts. and Totem Villa Apts.	$314,594
Seagull Villa Apts.	$154,262

These obligations are required only after the Operating Reserve Target Amounts have been exhausted.

ii) Seabreeze and Seagull are required to make capital contributions to the partnerships to compensate the limited partners for any ongoing shortfall in the tax credits which are hereinafter expected to accrue for the benefit of the limited partners.

iii) Seabreeze and Seagull are required to make capital contributions for the portion of the Developer Fee Note for each project that remain unpaid as of the end of the twelfth year following the completion of the rehabilitation of each project.

iv) Seabreeze and Seagull are required to purchase the limited partners' interests in the partnerships for the total amount of capital contributions contributed by the limited partners plus $50,000 plus any expenses incurred by the limited partners, based upon the occurrence of various specified events related to the failure of the projects to achieve the anticipated results. The management of the partnerships believe that it is highly unlikely that the GP will have any liability related to this obligation.

7. Commitments and Contingencies (Continued)

D) Pine Gardens I, Inc. has the following obligations related to McCarty Manor Associates, LP (the Partnership):

i) Pine Gardens I, Inc. together with RCHDC, is required to maintain an aggregate net worth of not less than $500,000 and liquidity of not less than $250,000 exclusive of any interest in the Partnership.

ii) Pine Gardens II, Inc. ("PGII"), an unaffiliated entity that is funded by RCHDC, has agreed to make a subordinated Permanent Loan to the Partnership in the amount of $700,000 at the long term Applicable Federal Rate for a term of 55 years commencing with the Investor's Contribution of its third installment of equity. PGII entered into a note payable agreement with McCarty Manor.

iii) Pine Gardens I, Inc. is required to purchase the limited partner's interest in the Partnership for the total amount of capital contributions contributed by the limited partner plus any expenses incurred by the limited partner, based upon the occurrence of various specified events related to the failure of the Partnership to achieve the anticipated results. Management believes that it is highly unlikely that Pine Gardens I, Inc. will have any liability related to this obligation.

iv) Pine Gardens I, Inc. is required to establish a separate Operating Reserve for the Partnership in the amount of $200,000 out of the fourth installment of capital by the limited partner.

v) To the extent not otherwise funded from the Operating Reserve discussed above, Pine Gardens I, Inc. is required to make Operating Loans to the Partnership to fund any Operating Deficits throughout the Tax Credit Compliance period.

vi) To the extent funds are not otherwise available from other construction sources of funds for the Partnership, Pine Gardens I, Inc. shall be obligated to make Completion Loans to the Partnership for construction cost overruns through the date that the Partnership generates a 1.15 debt service coverage ratio for three consecutive months following the completion of construction.

vii) Pine Gardens I, Inc. is required to make a capital contribution to the Partnership in an amount equal to any Developer Fee that remains unpaid as of the twelfth anniversary of the Completion Date as defined, so that the Partnership has adequate resources to pay the remainder of the Developer Fee.

viii) Pine Gardens I, Inc. is required to make capital contributions that may be necessary to compensate the limited partner for any ongoing tax credit shortfalls that might occur over the course of the Tax Credit Compliance period.

E) Pine Gardens I, Inc., as the sole member of Autumn Village LLC, and RCHDC have the following ongoing obligations related to Autumn Village Associates, LP ("Autumn"):

i) RCHDC is required to fund any construction costs deficits and permanent financing deficits. No funds have been advanced to the Partnership pursuant to this agreement.

7. Commitments and Contingencies (Continued)

ii) RCHDC has pledged to lend Autumn any operating loans to fund operating deficits up to $150,000 incurred by Autumn during the period beginning with stabilized occupancy and ending when Autumn has achieved a debt service coverage ratio of 1.15 or before on a on annualized basis for a period approximating five years. No funds have been advanced to the Partnership pursuant to this agreement.

iii) Pine Gardens I, Inc. is required to make capital contributions for the portion of the Development Fee Note that remains unpaid by the thirteenth anniversary of the completion of the construction of Autumn.

iv) Pine Gardens I, Inc. is required to make capital contributions to Autumn to compensate the limited partner for any ongoing shortfall in the tax credits which are hereinafter expected to accrued for the benefit of the limited partner.

v) RCHDC is required to establish a separate Sponsor Pledged Reserve for Autumn in the amount of $108,213. The reserve account has been funded during the year ended October 31, 2014.

8. Functional Allocation of Expenses

Expenditures incurred in connection with RCHDC operations and expenditures made for corporate purposes have been summarized on functional basis, as administrative services, in the accompanying Consolidated Statement of Activities. All other expenses incurred are program expenses related to affordable housing.

9. NeighborWorks America Grants

During the year ended October 31, 2015, RCHDC received grant funds from NeighborWorks America. The grants have been recognized in multiple funds and related corporations. The following provides a listing of the grants received:

Grant Type	Amount Received	Unrestricted	Temporarilty Restricted	Permanently Restricted
Permanently restricted	$ 125,000	$ -	$ -	$ 125,000
Expendable	101,875	101,875	-	-
Deferred Revenue	15,500	-	15,500	-
Total NeighborWorks America Grants Received	$ 242,375	$ 101,875	$ 15,500	$ 125,000

The following represents the components of permanently restricted net assets as it relates to cumulative capital grants provided to RCHDC from NeighborWorks America:

	Cash	Fixed Assets	Notes Receivable	Advances to Affiliates	Development Costs	Total
Beginning of the year	$ -	$ 915,500	$ 225,000	$ 469,800	$ 150,000	$ 1,760,300
Grants	125,000	-	-	-	-	-
End of the year	$ 125,000	$ 915,500	$ 225,000	$ 469,800	$ 150,000	$ 1,760,300

10. Self-Insurance

RCHDC's dental and vision insurance plans are funded through a restricted bank account established to provide medical benefits for eligible employees and their dependents. When necessary RCHDC makes a monthly contribution to the account to cover expected expenses. At October 31, 2015, RCHDC has $68,597 in cash restricted for the self-insurance plan and accounts payable for amounts that were available to fund outstanding claims.

11. Defined Contribution Pension Plan

Effective January 1, 2013, RCHDC established a 401(k) plan that covers all employees who meet certain eligibility requirements. RCHDC, on a discretionary basis, may choose to match at the end of the plan year. For the year ended October 31, 2015, RCHDC has accrued a matching contribution in the amount of $29,577. This amount is included in Accounts Payable and Accrued Liabilities in the accompanying Consolidated Statement of Financial Position.

12. Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of October 31, 2015:

Fair market value of land of $135,000 purchased from the County of Lake for $1 for use by Bevins Court Housing Corporation. The land is restricted for affordable housing in Lake County for a period of 40 years from the date of grant.	$ 135,000
Crescent City granted to RCHDC $70,000 and $85,000 during the years ended October 31, 2006 and 2008, respectively to be used for rehabilitation of three low income housing apartments in Crescent City, California. The housing projects must remain affordable for 55 years from the dates of the grants.	155,000
Revolving Development fund (Fund 21) grant liens	1,356,425
Owned Projects grant liens	3,280,500
Controlled Entities grant liens	6,346,900
Notes receivable with funds obtained from Redevelopment Agency of Mendocino	50,000
Total Temporarily Restricted Net Assets	$ 11,323,825

The following is a summary of the grant liens at October 31, 2015:

DEVELOPMENT FUND (FUND 21)

California Department of Housing and Community Development, CalHOME predevelopment loans secured by deed of trust on the Lake Mendocino Drive property. The notes are in the amount of $427,500 at 0% interest due June 28, 2015, as amended. The notes have been extended to lot sale dates. The notes convert to grants upon sale of lots to families.	$ 32,553

DEVELOPMENT FUND (FUND 21)

Housing Assistance Council ("HAC") notes in the aggregate amount of $150,000 and $30,000 on Lake Mendocino Drive Self-Help property at interest rates of 5% and 0%, respectively, through the extended due dates of the loans. After the due date, the notes bear interest at HAC's prevailing interest rates. Notes are forgiven incrementally as individual lots are sold with review and approval by HAC for use of funds. The notes are secured by the properties. As of October 31, 2015, accrued interest totaled $42,500.	180,000
Redevelopment Agency, County of Mendocino $100,000 note dated January 20, 2009. Note bears interest at 1% until forgiven incrementally as individual lots are sold. This note is secured by the property.	50,000
Lake County Redevelopment Agency note dated November 1, 2004, not to exceed $250,000, secured by deed of trust on Collier Street property. Note balance increased by $998,000 in 2009 to maximum balance of $1,248,000. The maximum principal of $626,872 has been drawn on later revised terms of the note. The note accrues simple interest at 2%. No payments or interest are due as long as the maker is not in default of an affordable housing covenant. After 10 years and each succeeding 5 years, 10% of the principal shall be reduced until the end of the 55 year term of the note. As of October 31, 2015, accrued interest totaled $86,457.	626,872
Ukiah Redevelopment Agency loan of $447,000, dated April 1, 2011. The loan is unsecured and non-interest bearing. No payments are due provided RCHDC has remained in continuous compliance with the Regulatory Agreement.	447,000
Gibson Court 4 is financed with an Affordable Housing Program Direct Subsidy. The Agreement requires no payments or interest as long as the Project remains affordable for households with income at or below 50% of average median income. Provided the Project remains in compliance with the AHP conditions for the term of the lien, then repayment of these funds is not required. This note is secured by the apartment project.	20,000
	$ 1,356,425

OWNED PROJECTS

Oak Hill Apartments obtained a Grant Lien secured by a Deed of Trust which originated on January 30, 2002 in the total amount of $2,988,000 from the Department of Housing and Community Development, Joe Serna Jr. Farmworker Housing Grant Program ("HCD-Joe Serna"). Provided that the Project remains in compliance with all of the covenants in the Grant Lien and Regulatory Agreement for the full 40 year term of the lien until January 30, 2042, no interest will accrue and no payments will be required pursuant to this Grant Lien.	$ 2,988,000

12. Temporarily Restricted Net Assets (Continued)

Oak Hill Apartments obtained a Grant Lien secured by a Deed of Trust which originated on December 16, 2004 in the total amount of $292,500 from the National Bank of the Redwoods pursuant to an Affordable Housing Program ("AHP") Award through the Federal Home Loan Bank of San Francisco ("FHLBSF"). Provided that the Project remains in compliance with FHLBSF – AHP requirements until July 26, 2022 (15 years from the date of issuance of the certificate of occupancy for the Project) no interest will accrue and no payments will ever be required pursuant to this Grant Lien.	292,500
	$ 3,280,500

CONTROLLED PROJECTS

Bevins Court is financed with a $68,800 Affordable Housing Program Direct Subsidy. The Agreement requires no payments or interest as long as the Project remains affordable for households with income at or below 50% of average median income. The note payable is secured by the apartment project.	$ 68,800
Bevins Court is also financed with a mortgage note of $1,104,100 from HUD, under Section 811. The mortgage note bears no interest and repayment is not required as long as the housing remains available for qualifying persons with disabilities. The note matures May 1, 2041 and may not be prepaid without prior written approval of HUD. Provided that the Project remains available and Bevins Court Housing Corporation has not defaulted on the terms of the Note, Mortgage, or Regulatory Agreement, HUD will deem the note paid in full at the maturity date. The mortgage note is secured by the apartment project.	1,104,100
Gibson Court is financed with a $60,000 Affordable Housing Program Direct Subsidy. The Agreement requires no payments of principal or interest as long as the Project remains affordable for households with income at or below 50% of average median income. The note payable is secured by the apartment project.	60,000
Gibson Court is also financed with a Capital Advance Mortgage note of $752,400 from HUD, under Section 811. The mortgage note bears no interest and repayment is not required as long as the housing remains available for qualifying persons with disabilities. The note matures May 1, 2041 and may not be prepaid without prior written approval of HUD. Provided that the Project remains available for disabled persons until the maturity date, and that Gibson Court Housing Corporation has not defaulted under the terms of the note, Mortgage, or Regulatory Agreement, HUD will deem the note paid in full at the maturity date. The mortgage note is secured by the apartment project.	752,400

12. Temporarily Restricted Net Assets (Continued)

North Pine St. Apts. is financed with a Capital Advance Mortgage note of $706,000 with HUD under Section 202 of the National Housing Act of 1959, where HUD agreed to advance a maximum of $706,000 to the project. The capital advance bears no interest and will not be repaid to HUD as long as the Project remains available to qualifying low income persons for a period of 40 years. If the Project becomes non-compliant within term, the advance becomes immediately due and payable. The note is secured by the project.	706,000
North Pine St. Apts. is also financed through a $47,500 Affordable Housing Program Direct Subsidy. The Agreement requires no payments or interest as long as the Project remains affordable for households with income at or below 50% of average median income. The note payable is secured by the apartment project.	47,500
Oak Park Manor is financed with a mortgage note of $1,733,300 with HUD, under Section 202 of the National Housing Act of 1959. The mortgage note bears no interest and repayment is not required as long as the housing remains available for low-income seniors. The note matures August 1, 2033 and may not be prepaid without prior written approval of the HUD. Provided that the Project remains available for low-income seniors until the maturity date, and that Red Bluff Senior Housing Corporation has not defaulted on the terms of the note, Mortgage, or Regulatory Agreement, HUD will deem the note paid in full at the maturity date. The mortgage note is secured by the apartment project.	1,733,300
Washington Court is financed with a $55,000 Affordable Housing Program Direct Subsidy. The Agreement requires no payments of principal or interest as long as the Project remains affordable for households with income at or below 50% of average median income. The note payable is secured by the apartment project.	55,000
Washington Court is also financed with a Capital Advance Mortgage note in the amount of $924,000 with HUD under Section 202 of the National Housing Act of 1959. The capital advance bears no interest and will not be repaid to HUD as long as the Project remains available to qualifying low income persons for a period of 40 years. If the Project becomes non-compliant within the term, the advance becomes immediately due and payable. The note is secured by the apartment project.	924,000
Lenore Street is financed with a $60,000 Affordable Housing Program Direct Subsidy. The agreement requires no payments of principal or interest as long as the Project remains affordable for households with income at or below 50% of average median income. The note payable is secured by the apartment project.	60,000

12. Temporarily Restricted Net Assets (Continued)

Lenore Street is also financed with a Capital Advance Mortgage note of $835,800 with HUD under Section 202 of the National Housing Act of 1959. The mortgage note bears no interest and repayment is not required as long as the housing remains available for low-income seniors. The note matures March 15, 2041 and may not be prepaid without prior written approval of HUD. Provided that the Project remains available for low-income seniors until the maturity date, and WSHC has not defaulted under the terms of the note, Mortgage or Regulatory Agreement, HUD will deem the note paid in full at the maturity date. The note payable is secured by the apartment project.	835,800
	$ 6,346,900

13. Permanently Restricted Net Assets

Permanently restricted net assets at October 31, 2015 have been restricted for the following purpose:

Self-Help notes receivable and cash	$ 1,297,072
Investment in unconsolidated affiliates	50,000
Notes receivable	150,000
Fixed assets	809,000
Advances to or investment in affiliates	269,800
Development costs	400,000
Total Permanently Restricted Net Assets	$ 2,975,872

14. Business Conditions – Holly Heights II

In August 2012, RCHDC received notification that the Holly Heights II's (Project) tenant assistance contract with California Rental Housing Construction Program ("CRHCP") was running out of funding and the program for the Project would be terminated effective December 31, 2013. This rental assistance provides assistance for 87.5% of the units and for the year ended October 31, 2015 represented 65% of rental income. During the year ended October 31, 2014, RCHDC received notification that the Project would receive CRHCP tenant assistance of $62,591 for the year ended October 31, 2015. The project was sold on March 16, 2016 as detailed in Note 18.

15. Fair Value Measurements

The guidance requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

15. Fair Value Measurements (Continued)

In determining the appropriate levels, RCHDC performs a detailed analysis of the assets and liabilities that are subject to fair value measurements. For the year ended October 31, 2015, the application of fair value techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value.

Investment in Land Held for Development and Development Costs: The fair value of real estate is the market value of real estate based on recent appraisals, estimated future net undiscounted cash flows from the eventual disposition of the property and other real estate market condition factors.

The table below presents the balances of assets measured at fair value by level within that hierarchy as of October 31, 2015:

	Total	Level 1	Level 2	Level 3
Land held for development and developments costs	$ 6,592,318	$ -	$ -	$ 6,592,318

The following summarizes the activity for Level 3 investments for the year ended October 31, 2015:

Balance, Beginning of Year	$ 8,813,582
Total net gains (losses) included in:	
Change in Net Assets	(2,713,726)
Purchases, sales, issuances and settlements, net	492,462
Balance, End of Year	$ 6,592,318

16. Current Concentration Due to Certain Conditions

RCHDC, through its Funds, Owned Properties and Controlled Entities, operations are concentrated in affordable housing real estate including developing, owning and managing affordable housing which is a heavily regulated environment. The operations of the Owned Properties and Controlled Entities are subject to administrative directives, rules and regulations of federal and state regulatory agencies, including but not limited to RD, HUD, IRS and State Housing Agencies. The Funds rely on federal and state affordable housing programs to fund their purposes. Such administrative directives, rules and regulations are subject to change by an act of Congress or administrative change mandated by federal and state agencies. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

17. Change in Accounting Principle

During 2015, the Corporation elected to adopt a change in accounting principle related to the presentation of debt issuance costs. In previous periods, the debt issuance costs were presented as an asset on the accompanying Statement of Financial Position. Due to this change in accounting principle being required to be implemented retrospectively, effective November 1, 2014, the debt issuance costs will be presented as a reduction of the outstanding debt due. There has been no change to the recognition and measurement of the debt issuance costs, therefore these costs will continue to be amortized over the life of the loan using the straight-line method.

18. Subsequent Event

RCHDC sold the rental property of Holly Heights I and Holly Heights II on March 16, 2016 at the price of $1,085,000 and $665,000, respectively, to a third party.

RCHDC evaluates events and transactions occurring subsequent to the dates of the consolidated financial statements for matters requiring recognition or disclosure in the consolidated financial statements. The accompanying consolidated financial statements and related disclosures consider events through April 28, 2016, the date which the consolidated financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

Rural Communities Housing Development Corporation
Consolidating Schedule of Financial Position
October 31, 2015

Assets	**Funds**	**Owned Projects**	**Controlled Entities**	**Consolidating Entries**	**Totals**
Current Assets:					
Cash and cash equivalents	$ 2,544,040	$ 39,462	$ 1,164,499	$ -	$ 3,748,001
Net tenant accounts receivable	-	5,287	8,030	-	13,317
Tenant assistance accounts receivable	-	102	-	-	102
Other accounts receivable	47,990	-	-	-	47,990
Due from funds	-	-	374,339	(374,339)	-
Due from owned projects	649,016	-		(649,016)	-
Due from controlled entities	622,010	-	-	(622,010)	-
Due from related parties	577,258	-	481,396	-	1,058,654
Prepaid expenses	64,954	2,283	16,572	-	83,809
Total Current Assets	4,505,268	47,134	2,044,836	(1,645,365)	4,951,873
Deposits:					
Tenant deposits held in trust	-	46,539	141,697	cret9	188,236
Amounts held for self-help families	1,300	-	-	-	1,300
Tax and insurance impounds	-	37,870	80,368	-	118,238
Replacement reserves	73,259	711,028	2,174,433	-	2,958,720
Other required reserves	23,453	218,003	660,304	-	901,760
Residual receipts reserves	-	5,038	690,368	-	695,406
Cash restricted for self-insurance plan	68,597	-	-	-	68,597
Total Deposits	166,609	1,018,478	3,747,170	-	4,932,257
Fixed Assets, net of Accumulated Depreciation	1,450,189	12,158,473	16,982,046	-	30,590,708
Other Assets:					
Long-term notes receivable	1,940,427	-	-	-	1,940,427
Developer notes receivable	969,844	-	310,125	-	1,279,969
Advances and investments in consolidated affiliates	128,000	-	332,937	(460,937)	-
Notes receivable from consolidated affiliates	4,061,076	-	-	(4,061,076)	-
Advances and investment in nonconsolidated affiliates	1,024,037	-	233,782	-	1,257,819
Land held for development	2,388,173	-	-	-	2,388,173
Development costs	4,107,792	94,125	2,228	-	4,204,145
Total Other Assets	14,619,349	94,125	879,072	(4,522,013)	11,070,533
Total Assets	$ 20,741,415	$ 13,318,210	$ 23,653,124	$ (6,167,378)	$ 51,545,371

See Independent Auditors' Report.

Liabilities and Net Assets (Deficits)	Funds	Owned Projects	Controlled Entities	Consolidating Entries	Totals
Current Liabilities:					
Accounts payable and accrued liabilities	$ 598,483	$ 36,763	$ 112,958	$ -	$ 748,204
Residual receipts liablity	-	-	317,087	-	317,087
Accrued interest payable	2,400	158,152	68,432	-	228,984
Due to funds	-	447,655	848,371	(1,296,026)	-
Due to owned properties	-	-	-	-	-
Due to controlled properties	349,339	-	-	(349,339)	-
Current portion mortgages and notes payable	1,992,218	1,015,798	221,395	-	3,229,411
Deferred revenue	83,505	4,946	3,959	-	92,410
Total Current Liabilities	3,025,945	1,663,314	1,572,202	(1,645,365)	4,616,096
Long-Term Liabilities:					
Tenant deposits held in trust	-	46,189	142,249	-	188,438
Amounts held for self-help families	1,300	-	-	-	1,300
Accrued interest payable	624,525	1,477,076	818,496	-	2,920,097
Mortgages and notes payable, net	3,710,140	9,716,958	23,197,339	(4,061,076)	32,563,361
Unamortizated debt issuance costs	-	-	(734,950)	-	(734,950)
Total Long-Term Liabilities	4,335,965	11,240,223	23,423,134	(4,061,076)	34,938,246
Total Liabilities	7,361,910	12,903,537	24,995,336	(5,706,441)	39,554,342
Net Assets (Deficit):					
Unrestricted (Deficit)	9,392,708	(3,032,327)	(8,208,112)	(460,937)	(2,308,668)
Temporarily restricted	1,561,425	3,280,500	6,481,900	-	11,323,825
Permanently restricted	2,425,372	166,500	384,000	-	2,975,872
Total Net Assets (Deficit)	13,379,505	414,673	(1,342,212)	(460,937)	11,991,029
Total Liabilities and Net Assets (Deficit)	$ 20,741,415	$ 13,318,210	$ 23,653,124	$ (6,167,378)	$ 51,545,371

See Independent Auditors’ Report.

Revenues	**Funds**	**Owned Projects**	**Controlled Entities**	**Consolidating Entries**	**Totals**
Net tenant rents	$ -	$ 385,378	$ 1,529,742	$ -	$ 1,915,120
Tenant assistance payments	-	924,154	2,336,318	-	3,260,472
Other rents	138,093	-	116,185	-	254,278
Grant income	628,507	-	-	-	628,507
Interest income	56,381	421	1,564	-	58,366
Management fees and reimbursements	739,914	-	38,927	(472,656)	306,185
Operational revenue	579,587	12,085	23,313	-	614,985
Other revenue	193,125	17,463	23,644	-	234,232
Total Revenues	2,335,607	1,339,501	4,069,693	(472,656)	7,272,145
Expenses					
Administrative services	1,585,518	168,854	614,047	-	2,368,419
Management fees	-	100,880	327,280	(428,160)	-
Bookkeeping and accounting fees	-	1,944	42,552	(44,496)	-
Utilities	28,066	163,040	543,919	-	735,025
Operating and maintenance:					
Operating expenses	84,197	184,555	669,455	-	938,207
Replacement reserve and residual receipts accounts	-	109,055	13,053	-	122,108
Taxes and insurance	498,040	160,092	390,020	-	1,048,152
Interest expense	38,117	344,301	968,605	-	1,351,023
Unrealized loss on land development and notes receivable	55,713	-	-	-	55,713
Depreciation and amortization	67,438	439,878	688,263	-	1,195,579
Total Expenses	2,357,089	1,672,599	4,257,194	(472,656)	7,814,226
Change in Net Assets	(21,482)	(333,098)	(187,501)	-	(542,081)
Transfer of assets from owned to funds	441,964	(441,964)	-	-	-
Temporarily restricted grant liens released from sale of real estate	(57,500)	-	-	-	(57,500)
Net Assets, Beginning	13,016,523	1,189,735	(1,154,711)	(460,937)	12,590,610
Net Assets, Ending	$ 13,379,505	$ 414,673	$ (1,342,212)	$ (460,937)	$ 11,991,029

See Independent Auditors' Report.

Cash Flows From Operating Activities	**Funds**	**Owned Projects**	**Controlled Entities**	**Consolidating Entries**	**Total**
Change in Total Net Assets From Operations	$ (21,482)	$ (333,098)	$ (187,501)	$ -	$ (542,081)
Adjustments to Reconcile Changes in Net Assets to Net Cash From Operating Activities:					
Net present value of notes receivable	52,121	-	-	-	52,121
Increase (decrease) in long-term accrued interest	(63,460)	21,992	101,650	-	60,182
Depreciation and amortization	67,438	439,878	688,263	-	1,195,579
Unrealized loss on land development and notes receivable	55,713	-	-	-	55,713
Release of grant liens from sale of real estate	(57,500)	-	-	-	(57,500)
Decrease (Increase) in:					
Net tenant accounts receivable	44	1,863	18,081	-	19,988
Tenant assistance accounts receivable	-	1,065	4,346	-	5,411
Other accounts receivable	(32,070)	-	-	-	(32,070)
Due from funds	(20,179)	-	(75,771)	95,950	-
Due from owned properties	(182,738)	-	-	182,738	-
Due from controlled entities	193,263	-		(193,263)	-
Prepaid expenses	7,469	6,837	(5,857)	-	8,449
Increase (Decrease) in:					
Accounts payable and accrued liabilities	184,387	(4,130)	(104,175)	-	76,082
Residual receipts liability	-	-	10,326	-	10,326
Accrued interest payable	(39)	147,112	12,849	-	159,922
Due to funds	-	31,569	(10,871)	(20,698)	-
Due to owned properties	(11,044)	-	-	11,044	-
Due to controlled entities	75,771	-	-	(75,771)	-
Deferred revenue	63,505	2,945	(793)	-	65,657
Net Cash From Operating Activities	311,199	316,033	450,547	-	1,077,779
Cash Flows From Investing Activities					
Decrease (Increase) in:					
Tenant deposits held in trust	(1,991)	(350)	552	-	(1,789)
Tax and insurance impounds	-	(9,434)	3,570	-	(5,864)
Replacement reserve	64,084	(63,932)	(139,769)	-	(139,617)
Other reserves	84,760	-	913,818	-	998,578
Residual receipts reserve	-	(2,661)	(58,232)	-	(60,893)
Cash restricted for pension plan	-	-	-	-	-
Cash restricted for self-insurance plan	1,195	-	-	-	1,195
Purchase of fixed assets / capitalized rehab	(459,399)	(10,871)	(2,940,480)	-	(3,410,750)
Decrease (increase) in due from related parties	44,911	-	(10,927)	-	33,984
Long-term notes receivable	(163,663)	-	-	-	(163,663)
Developer notes receivable	9,309	-	19,875	-	29,184
Investment in nonconsolidated affiliates	-	-	9,703	-	9,703
Transfer cash from owned to funds	210,756	(210,756)	-	-	-
Proceeds on sale of developed lots	841,209	-	-	-	841,209
Land held for development and development costs	(348,747)	(57,153)	1,730,242	-	1,324,342
Net Cash From Investing Activities	282,424	(355,157)	(471,648)	-	(544,381)

See Independent Auditors’ Report.

Cash Flows From Financing Activities	Funds	Owned Projects	Controlled Entities	Consolidating Entries	Total
Notes receivable (payable) from consolidated affiliates	$ 23,253	$ -	$ (23,253)	$ -	$ -
Principal payments on mortgages and notes payable	(461,392)	(234,183)	(209,671)	-	(905,246)
Net Cash From Financing Activities	(438,139)	(234,183)	(232,924)	-	(905,246)
Net Decrease in Cash and Cash Equivalents	155,484	(273,307)	(254,025)	-	(371,848)
Cash and Cash Equivalents, Beginning	2,388,556	312,769	1,418,524	-	4,119,849
Cash and Cash Equivalents, Ending	$ 2,544,040	$ 39,462	$ 1,164,499	$ -	$ 3,748,001
Supplemental Disclosures					
Amounts paid for interest	$ 38,078	$ 175,197	$ 599,462	$ -	$ 812,737
Non Cash Investing and Financing Activities					
Capitalized interest	$ 190,495	$ -	$ -	$ -	$ 190,495
Transfer of assets from owned to funds	$ 441,964	$ (441,964)	$ -	$ -	$ -

Federal Programs:		Funds	Owned Projects	Controlled Entities	Total
U.S Department of Agriculture:					
Farm Labor Housing Loans and Grants	10.405	$ -	$ 3,131,253	$ -	$ 3,131,253
Rural Rental Housing Loans (Section 515 and 521)	10.415	-	1,780,909	1,676,597	3,457,506
Rural Self-Help Housing Technical Assistance (Section 523)	10.420	213,132	-	-	213,132
Rural Rental Assistance Payments	10.427	-	318,245	10,081	328,326
Community Facilities Loans and Grants	10.766	658,254	-	-	658,254
Total U.S Department of Agriculture		871,386	5,230,407	1,686,678	7,788,471
U.S. Department of Housing and Urban Development:					
Mortgage Insurance Rental Housing	14.134	-	-	8,371,946	8,371,946
Supportive Housing For the Elderly (Section 202)	14.157	-	109,902	4,199,100	4,309,002
Supportive Housing for Person with Disabilities (Section 811)	14.181	-	-	752,400	752,400
Section 8 Housing Assistance Payments Program (Pass-Through Contract Administrator)	14.195	-	547,056	2,326,237	2,873,293
Home Investment Partnership Program (HOME) (Pass-Through California Department of Housing & Community Dev)	14.239	100,000	4,767,779	3,949,101	8,816,880
Self Help Homeownership Opportunity Program	14.247	105,000	-	-	105,000
Total U.S. Department of Housing and Urban Development		205,000	5,424,737	19,598,784	25,228,521
NeighborWorks America:					
Expendable grants	21.000	101,875	-	-	101,875
Permanently restricted capital grants	21.000	125,000	-	-	125,000
Capital loan	21.000	286,000	-	-	286,000
Total NeighborWorks America		512,875	-	-	512,875
Total Federal Awards Expended		$ 1,589,261	$ 10,655,144	$ 21,285,462	$ 33,529,867

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Rural Communities Housing Development Corporation and Affiliates and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic consolidated financial statements.

CLARK SCHAEFER HACKETT
CPAs & BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' 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*

To the Board of Directors of
Rural Communities Housing Development Corporation
Ukiah, California

We 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 of America, the financial statements of Rural Communities Housing Development Corporation and Affiliates, which comprise the statement of financial position as of October 31, 2015, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 28, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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 changed 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Communities Housing Development Corporation's financial statements are free from material misstatement, we 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 statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our 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 Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Columbus, Ohio
April 28, 2016

CLARK SCHAEFER HACKETT
CPAs & BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors of
Rural Communities Housing Development Corporation
Ukiah, California

Report on Compliance for Each Major Federal Program

We have audited Rural Communities Housing Development Corporation and Affiliates' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Rural Communities Housing Development Corporation and Affiliates' major federal programs for the year ended October 31, 2015. Rural Communities Housing Development Corporation and Affiliates' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Rural Communities Housing Development Corporation and Affiliates' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Rural Communities Housing Development Corporation and Affiliates' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Rural Communities Housing Development Corporation and Affiliates' compliance.

Opinion on Each Major Federal Program

In our opinion, Rural Communities Housing Development Corporation and Affiliates complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended October 31, 2015.

Report on Internal Control Over Compliance

Management of Rural Communities Housing Development Corporation and Affiliates is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Rural Communities Housing Development Corporation and Affiliates' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Rural Communities Housing Development Corporation and Affiliates' internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Columbus, Ohio
April 28, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	*unmodified*			
Internal control over financial reporting:				
Material weakness identified?		Yes	X	No
Control deficiency identified not considered to be material weaknesses?		Yes	X	None
Noncompliance material to financial statements noted?		Yes	X	None

Federal Awards

Type of auditor's report issued on compliance for major programs:	*unmodified*			
Internal control over financial reporting:				
Material weakness identified?		Yes	X	No
Control deficiency identified not considered to be material weaknesses?		Yes	X	None
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)		Yes	X	None

Identification of major program

CFDA Number	Name of Federal Program or Cluster
10.415	Rural Rental Housing Loans (Section 515 and 521)
14.134	Mortgage Insurance Rental Housing
14.181	Supportive Housing for Persons with Disabilities (Section 811)
14.239	Home Investment Partnerships Program (HOME)

Dollar threshold used to distinguish between Type A and Type B programs:	$1,005,896			
Auditee qualified as low-risk auditee?	X	Yes		No

SECTION II - FINANCIAL STATEMENT FINDINGS

There were no findings or questioned costs relative to the consolidated financial statements.

SECTION III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings or questioned costs relative to Federal Awards.

Finding / Recommendation	Current Status	Project Explanation If Not Implemented

No unresolved findings from prior year.