

RURAL COMMUNITIES
HOUSING DEVELOPMENT CORPORATION

ANNUAL FINANCIAL REPORT

OCTOBER 31, 2009

ROBERTSON & ASSOCIATES, CPAs
A Professional Corporation

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
ORGANIZATION
OCTOBER 31, 2009

Rural Communities Housing Development Corporation (RCHDC) is a California not-for-profit corporation which was incorporated in November 1975. The primary purpose of RCHDC is to develop 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.

BOARD OF DIRECTORS

<u>Name</u>	<u>Date Seated</u>	<u>Term Expires</u>
Andrew Peterson, Chairperson	October 30, 2006	November 2011
William Thompson, Vice President	March 11, 2005	November 2009
Peter Klien, Secretary	July 28, 2008	November 2011
Ron Caviglia, Treasurer	February 24, 1998	November 2009
Jason Woelbing	June 29, 2009	November 2013
Gary Mirata	August 31, 2009	November 2013
Marlene Ruiz	October 26, 2009	November 2013
Fred Alexander	September 28, 2009	November 2011
Raymond Hall	September 28, 2009	November 2011

ADMINISTRATION

Bruce Alfano - Chief Executive Officer
Lois Goforth - Fiscal Officer

ADDRESS OF CORPORATE OFFICE

499 Leslie Street
Ukiah, California 95482

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
TABLE OF CONTENTS
OCTOBER 31, 2009

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL SECTION	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Cash Flows	5
Notes to Consolidated Financial Statements	6 - 32
SUPPLEMENTAL INFORMATION SECTION	
Consolidating Schedules of Financial Information:	
Consolidating Schedule of Financial Position	33
Consolidating Schedule of Activities	34
Consolidating Schedule of Cash Flows	35
Consolidating Fund Schedule of Financial Position	36
Consolidating Fund Schedule of Activities	37
Consolidating Fund Schedule of Cash Flows	38
Schedule of Expenditures of Federal Awards	39
OTHER INDEPENDENT AUDITOR'S REPORTS	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	40 - 41
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	42 - 44
AUDITOR'S FINDINGS AND QUESTIONED COSTS	
Schedule of Findings and Questioned Costs	45
Current Year Findings	46 - 48
Corrective Action Plan	49
Summary Schedule of Prior Year Findings	50 - 51

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Communities Housing Development Corporation
Ukiah, California

We have audited the accompanying consolidated statement of financial position of Rural Communities Housing Development Corporation (a nonprofit organization) and its affiliates (Organization) (see Note 1) as of October 31, 2009, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rural Communities Housing Development Corporation and its affiliates as of October 31, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2010, on our consideration of Rural Communities Housing Development Corporation and its 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information on pages 33 to 39 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Organization. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Robertson & Associates, CPAs

Lakeport, California
June 25, 2010

FINANCIAL SECTION

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2009

ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Current Assets:				
Cash and cash equivalents	\$ 853,318	\$ -	\$ 199,649	\$ 1,052,967
Net tenant accounts receivable	9,446	-	-	9,446
Tenant assistance accounts receivable	39,415	-	-	39,415
Other accounts receivable	6,711	-	-	6,711
Due from related parties	1,569,481	-	-	1,569,481
Prepaid expenses	149,817	-	-	149,817
Total Current Assets	2,628,188	-	199,649	2,827,837
Deposits:				
Tenant security deposits held in trust	175,508	-	-	175,508
Tax and insurance impounds	221,672	-	-	221,672
Replacement reserve	2,122,189	-	-	2,122,189
Other required reserves	925,760	-	-	925,760
Residual receipts reserve	544,391	-	-	544,391
Cash restricted for pension plan	19,879	-	-	19,879
Cash restricted for self-insurance plan	26,188	-	-	26,188
Total Deposits	4,035,587	-	-	4,035,587
Fixed Assets net of Accumulated Depreciation	29,640,384	135,000	744,000	30,519,384
Other Assets:				
Long-term notes receivable	1,604,578	155,000	306,626	2,066,204
Investment in affiliates	40,318	-	75,000	115,318
Land held for development	3,921,072	-	-	3,921,072
Development costs	7,820,208	-	594,800	8,415,008
Total Other Assets	13,386,176	155,000	976,426	14,517,602
Total Assets	\$ 49,690,335	\$ 290,000	\$ 1,920,075	\$ 51,900,410
LIABILITIES AND NET ASSETS (DEFICIT)				
Liabilities:				
Current Liabilities:				
Checks issued in excess of deposits	\$ 706	\$ -	\$ -	\$ 706
Accounts payable and accrued liabilities	768,049	-	-	768,049
Accrued interest payable	85,528	-	-	85,528
Due to related parties	6,472	-	-	6,472
Current portion mortgages and notes payable	4,605,964	-	-	4,605,964
Deferred revenue	48,516	-	-	48,516
Total Current Liabilities	5,515,235	-	-	5,515,235
Long-Term Liabilities:				
Tenant security deposits	183,516	-	-	183,516
Accrued interest payable	1,192,593	-	-	1,192,593
Mortgages and notes payable	40,115,508	-	-	40,115,508
Total Long-Term Liabilities	41,491,617	-	-	41,491,617
Total Liabilities	47,006,852	-	-	47,006,852
Net Assets (Deficit)	2,683,483	290,000	1,920,075	4,893,558
Total Liabilities and Net Assets (Deficit)	\$ 49,690,335	\$ 290,000	\$ 1,920,075	\$ 51,900,410

See accompanying notes and independent auditor's report.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2009

REVENUES	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net tenant rents	\$ 1,866,863	\$ -	\$ -	\$ 1,866,863
Tenant assistance payments	3,099,672	-	-	3,099,672
Other rents	107,040	-	-	107,040
Grant income	561,218	-	44,800	606,018
Interest income	28,826	-	-	28,826
Management fees and reimbursements	280,853	-	-	280,853
Operational revenue	1,767,514	-	-	1,767,514
Other revenue	607,702	-	-	607,702
Gain (loss) on sale of development properties	442,757	-	-	442,757
Total Revenues	8,762,445	-	44,800	8,807,245
EXPENSES				
Administrative services	1,872,608	-	-	1,872,608
Utilities	590,188	-	-	590,188
Operating and maintenance:				
Operating accounts	1,065,540	-	-	1,065,540
Replacement reserve and residual receipts accounts	115,637	-	-	115,637
Taxes and insurance	583,285	-	-	583,285
Interest expense	1,292,460	-	-	1,292,460
Amortization and depreciation	1,118,923	-	-	1,118,923
Total Expenses	6,638,641	-	-	6,638,641
Change In Net Assets	2,123,804	-	44,800	2,168,604
Net Assets (Deficit), Beginning	559,679	290,000	1,875,275	2,724,954
Net Assets (Deficit), Ending	<u>\$ 2,683,483</u>	<u>\$ 290,000</u>	<u>\$ 1,920,075</u>	<u>\$ 4,893,558</u>

See accompanying notes and independent auditor's report.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2009

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Total Net Assets from Operations	\$ 2,168,604
Adjustments to Reconcile Changes in Net Asset to Net cash Provided by (Used in) Operating Activities:	
Increase in long-term accrued interest	262,488
Forgiveness of long-term accrued interest	(42,803)
Amortization and Depreciation	1,118,923
Gain (loss) on sale of development properties	(442,757)
Decrease (Increase) in:	
Net tenant accounts receivable	1,372
Tenant assistance accounts receivable	5,188
Other accounts receivable	2,059
Prepaid expenses	(5,096)
Increase (Decrease) in:	
Checks issued in excess of deposits	(1,365,806)
Accounts payable and accrued liabilities	236,845
Accrued interest payable	(35,187)
Deferred revenue	9,670
Net Cash Provided by (Used in) Operating Activities	<u>1,913,500</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Decrease (Increase) in:	
Tenant deposits held in trust	(6,367)
Tax and insurance impounds	(22,751)
Replacement reserve	(169,795)
Other reserves	(147,396)
Residual receipts reserve	(71,537)
Cash restricted for pension plan	3,167
Cash restricted for self-insurance plan	6,190
Purchase of fixed assets	(86,411)
Decrease (Increase) in due from related parties	(1,040,472)
Increase in long-term notes receivable	(1,058,349)
Proceeds on sale of developed lots	1,160,000
Development costs	(4,047,533)
Net Cash Provided by (Used in) Investing Activities	<u>(5,481,254)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from mortgages and notes payable	5,409,061
Increase (Decrease) in due to related parties	(454,050)
Payments of long-term accrued interest	(85,609)
Increase in CDC investment in Lake Mendocino Drive	(471,000)
Principal payments on mortgages and notes payable	(1,595,176)
Net Cash Provided by (Used in) Financing Activities	<u>2,803,226</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(764,528)
Cash and Cash Equivalents, Beginning	<u>1,817,495</u>
Cash and Cash Equivalents, Ending	<u>\$ 1,052,967</u>
SUPPLEMENTAL DISCLOSURES	
Amounts Paid for Interest	<u>\$ 1,065,159</u>
Amounts Paid for Income Tax	<u>\$ -</u>
NON CASH INVESTING AND FINANCING ACTIVITIES	
Increase in long-term accrued interest	<u>\$ 262,488</u>
Forgiveness of long-term accrued interest	<u>\$ (42,803)</u>

See accompanying notes and independent auditor's report.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2009

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Rural Communities Housing Development Corporation (RCHDC) is a California not-for-profit corporation that was incorporated in November 1975. The primary purpose of RCHDC is to develop 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.

Principles of Consolidation

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

These financial statements include Funds 10, 20, 21, 22, 23, 70 and 90 of RCHDC, its owned housing projects, and controlled housing projects and related entities. All but two of the controlled housing projects are owned by separate corporations, which share the same board of directors as RCHDC. The other two of the controlled housing projects are owned by limited partnerships in which both the general partner and the limited partner are 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. Some 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 the financial statements.

Financial data used for the consolidation of CC Seabreeze, LLC and CC Seagull Villa, LLC is as of their year end, December 31, 2009. There were no events or transactions either excluded or included that would have a significant effect on the consolidated financial statements.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2009

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Rural Communities Housing Development Corporation (RCHDC)

RCHDC Funds	Fund Number
Corporate Fund	Fund 10
Administrative Fund	Fund 20
Revolving Development Fund	Fund 21
Property Management	Fund 22
First Time Home Buyer	Fund 23
Self-Help Technical Assistance Grant	Fund 70
Self-Help Construction Trust Fund	Fund 90

RCHDC Owned Projects	
Creekside Village	McCarty Manor
Cypress Ridge	McCloud Motel Apartments
Highlands Village	Oak Hill Apartments
Holden Street	Sunshine Manor
Holly Heights I	Walnut Village
Holly Heights II	Gibson Court 4 Apartments *

Controlled Entities	Project Operations Included
Pine Gardens I, Inc.	
Redwood Court Property Corporation	
Redwood Court Property, A California Limited Partnership	Redwood Court Apartments
CC Seabreeze, LLC	
CC Seagull Villa, LLC	
Clara Court LP	Project in development
Bevins Court Housing Corporation	Bevins Court Apartments
Clearlake Housing Corporation	North Shore Villas
Gibson Court Housing Corporation	Gibson Court Apartments *
Lakeview Housing, Inc.	Lakeview Apartments
Low Gap Housing Corporation	Jack Simpson School View 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.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2009

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

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.

Net Asset Classes

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.

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:

Corporate Fund (Fund 10)

Assets, such as land, buildings, computer equipment and other assets, used by RCHDC to manage its housing projects and funds are recorded in Fund 10. Sources of revenue for Fund 10 include interest earned on bank accounts and other miscellaneous revenues. Fund 10 is charged with depreciation for the fixed assets discussed above.

Administrative Fund (Fund 20)

Sources of revenue for Fund 20 generally include rental income from commercial real estate owned by the Company, 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 discussed above are charged to Fund 20.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2009

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Revolving Development Fund (Fund 21)

Fund 21 is used to acquire and develop land for proposed Self-Help projects and for low-income family 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.

First Time Home Buyer Fund (Fund 23)

All direct costs associated with the Home Ownership Center are charged to Fund 23. Revenues for Fund 23 generally include nominal charges to participants in the home ownership classes as well as grant income as appropriate.

Self-Help Technical Assistance Grant (Fund 70)

Fund 70 administers the USDA and HCD Technical Assistance 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.

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 either reimbursed by Rural Economic and Community Development Services (RECDS), charged to the individual family responsible for the cost overrun or absorbed by RCHDC.

Property and Equipment

Property and equipment 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.

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, 2009.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2009

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Cash balances in banks are insured up to \$250,000 from October 3, 2008 through December 31, 2013 by the Federal Deposit Insurance Corporation (FDIC). As of October 31, 2009, RCHDC's Funds, Owned Projects and Controlled Projects and Entities held cash in banks in excess of amounts insured by the FDIC. The excess funds totaled \$2,967,611. The banks holding these excess funds have pledged eligible pooled securities equal to or greater than the uninsured amounts.

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 low-income 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 the supplementary information.

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 long-term liabilities at their face amounts until the affordability restrictions have been fully satisfied. 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.

Development Costs

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, 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.

Income Taxes

RCHDC and the majority of its controlled corporations are exempt from Federal and California income taxes because they are organized as a not-for-profit corporations exempt under Federal and California Code Sections 501(c)(3) and 23701(d), respectively. Clara Court, LP; Redwood Court Properties, A California Limited Partnership; CC Seabreeze, LLC and CC Seagull Villa, 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.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2009

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

NOTE 2 NOTES RECEIVABLE

In assisting eligible individuals and facilitating the development or rehabilitation of low-income multi-family 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% 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. Additionally, Fund 21 advanced \$123,700 to CC Seagull Villas, L.P. for the rehabilitation of Seagull Villa Apartments from funds that RCHDC borrowed on a line of credit from Local Initiatives Support Corporation (LISC). CC Seabreeze, L.P. and CC Seagull Villas, L.P. are related parties to RCHDC.

Fund 10:

1. Loans aggregating \$716,898 at October 31, 2009, with 30 year terms were made to homeowners from Fund 10. 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.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 OCTOBER 31, 2009

NOTE 2. NOTES RECEIVABLE (Continued)

2. Loans aggregating \$247,731 at October 31, 2009, with 30 year terms were made to homeowners from Fund 10. 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.

NOTE 3. FIXED ASSETS

Fixed assets, net of accumulated depreciation, consisted of the following at October 31, 2009:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Fixed Assets				
Land and Improvements	\$ 3,876,481	\$ 13,170	\$ -	\$ 3,889,651
Building and Improvements	39,796,926	73,241	-	39,870,167
Office Furniture and Equipment	951,751	-	-	951,751
Total Fixed Assets	44,625,158	86,411	-	44,711,569
Accumulated Depreciation	<u>(13,073,987)</u>	<u>(1,118,198)</u>	-	<u>(14,192,185)</u>
Total Fixed Assets, Net	<u>\$ 31,551,171</u>	<u>\$ (1,031,787)</u>	<u>\$ -</u>	<u>\$ 30,519,384</u>

NOTE 4. LONG-TERM DEBT

Long-term debt consists of the following at October 31, 2009:

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
Corporate Fund (Fund 10)			
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.	\$ 9,007	\$ 698,484	\$ 707,491

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2009

NOTE 4. LONG-TERM DEBT (Continued)

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
Revolving Development Fund (Fund 21)			
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.	\$ 500	\$ 21,000	\$ 21,500
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	18,000
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.	-	115,200	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.	-	36,500	36,500
California Department of Housing and Community Development (HCD) - Gibson Street, Due July 21, 2032 (Contract #98-HOME-0237), 7% interest.	-	37,941	37,941
Local Initiatives Support Corporation (LISC) advance in the amount of \$123,700 at 6% interest for RCHDC to use for Seagull Villa Apartments rehabilitation pursuant to a Line of Credit Agreement dated June 1, 2006. This advance together with accrued interest is to be repaid upon the earlier of two years from the date of the advance or upon the closing of the permanent financing for Seagull Villa Apartments. This note is unsecured. This note has been extended.	123,700	-	123,700
California Department of Housing and Community Development, CalHOME predevelopment loan secured by deed of trust on the Lake Mendocino Drive property. The note is in the amount of \$277,500 at 0% interest originally due February 25, 2005. The note has been extended to lot sale dates. The note converts to a grant upon sale of lots to families.	-	206,333	206,333
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.	1,147,328	-	1,147,328

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2009

NOTE 4. LONG-TERM DEBT (Continued)

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
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 3% interest. This note is secured by a deed of trust. The note has been extended to August 31, 2010.	\$ 800,000	\$ -	\$ 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 3.5% and is payable monthly. \$484,935 was paid down during the fiscal year ended October 31, 2008 from the \$500,000 Neighbor Works loan. This note has been extended to November 19, 2010.	1,334,585	-	1,334,585
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. All unpaid principal and interest is due on or before March 31, 2011. This note is secured.	-	500,000	500,000
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, 2010.	100,000	-	100,000
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 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.	-	506,789	506,789
Rural Community Assistance Corporation 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 from September 1, 2008 to September 1, 2010, and the interest rate has been increased to 6.25% from September 1, 2008 to September 1, 2010. This note is secured.	460,674	-	460,674

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2009

NOTE 4. LONG-TERM DEBT (Continued)

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
Housing Assistance Council- note in amount of \$1,493,647 on Lake Mendocino Drive Self-Help property. Note is forgiven incrementally as individual lots are sold.	\$ -	\$ 1,493,647	\$ 1,493,647
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.	-	75,000	75,000
California Department of Housing & Community Development- note through the Joe Serna, Jr. grant program dated October 21, 2009.	-	428,000	428,000
County of Mendocino- loan sponsored by Community Development Commission in the amount of \$496,00 forgiven incrementally as individual lots are sold.	-	392,037	392,037
Development Fund Totals	<u>3,966,787</u>	<u>3,830,447</u>	<u>7,797,234</u>
Fund Totals	<u>3,975,794</u>	<u>4,528,931</u>	<u>8,504,725</u>

Owned Projects

Creekside Village is financed with a mortgage note of \$1,952,900 with the United States Department of Housing and Urban Development (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 480 equal monthly installments of principal and interest of \$15,441 payable through January 1, 2024. This note is secured.	52,010	1,412,295	1,464,305
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. 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. This note is secured.	29,767	1,163,377	1,193,144

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2009

NOTE 4. LONG-TERM DEBT (Continued)

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<p>Cypress Ridge is also financed with a note from the City of Fort Bragg for \$50,000 that accrues interest at 3 %. Principal and Interest shall be due and payable on or before March 1, 2056. This note is secured.</p>	\$ -	\$ 50,000	\$ 50,000
<p>Cypress Ridge is also financed with a mortgage note from the California Department of Housing and Community Development dated July 14, 2004 for a maximum amount of \$983,026 (Contract #03-HOME-0687) for the rehabilitation of Cypress Ridge Apartments. The note accrues simple interest of 3% and requires repayment from residual receipts 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. This note is secured.</p>	-	708,298	708,298
<p>Highlands Village is financed with a mortgage note of \$1,675,900 with HUD, under Section 202 of the National Housing Act of 1959. The mortgage note bears interest at the rate of 8.5% per annum and is being repaid in 480 equal monthly installments of principal and interest of \$12,285 payable through June 1, 2021. This note is secured.</p>	57,071	1,031,744	1,088,815
<p>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. This note is secured.</p>	10,717	181,150	191,867
<p>Holly Heights I is financed with two mortgage notes of \$125,000 and \$670,000, totaling \$795,000, with FmHA 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, 2016. In addition, there is an interest subsidy from Rural Development 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 RCHDC to \$4,405. This note is secured.</p>	37,169	240,037	277,206

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2009

NOTE 4. LONG-TERM DEBT (Continued)

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<p>Holly Heights I also received with a secured HCD/HOME note from the California Department of Housing and Community Development in the amount of \$238,736. The note bears simple interest at the rate of 3%. Annual payments in January of each year are required equal to the lesser of Residual Receipts as defined or the total unpaid accrued interest. All unpaid principal and interest are due January 31, 2031.</p>	\$ -	\$ 238,636	\$ 238,636
<p>Holly Heights II is financed with two mortgage notes of \$663,631 and \$105,726, totaling \$770,357, with FmHA under Section 515 of the National Housing Act of 1959. The mortgage notes bear interest at the rate of 11.875% per annum, payable in 548 equal monthly installments of principal and interest of \$7,658 through December 1, 2034. In addition, there is an interest subsidy from Rural Development 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 RCHDC to \$1,752. This note is secured.</p>	5,054	729,175	734,229
<p>Holly Heights II also received financing with a secured HCD/HOME note from the California Department of Housing and Community Development in the amount \$179,028. The note bears simple interest at the rate of 3%. Annual payments in January of each year are required equal to the lesser of Residual Receipts as defined or the total unpaid accrued interest. All unpaid principal and interest are due January 31, 2031.</p>	-	178,928	178,928
<p>McCarty Manor is financed with a mortgage note of \$1,708,500 with FmHA under Section 515 of the National Housing Act of 1959. The mortgage note bears interest at the rate of 10.75% per annum, payable in 588 equal monthly installments (49 years) of principal and interest of \$15,378 through October 1, 2032. In addition, there is an interest subsidy from Rural Development associated with this mortgage that reduces the effective interest rate to 9.75%. The subsidy is not recorded on the Project's books as income or expense and reduces the actual monthly payments by RCHDC to \$14,010. This note is secured.</p>	50,687	1,178,283	1,228,970
<p>Sunshine Manor is financed with a mortgage note of \$1,112,400 with HUD, under Section 202 of the National Housing Act of 1959. The mortgage note bears interest at the rate of 6.875% per annum and is being repaid in 480 equal monthly installments of principal and interest of \$6,812 payable through October 1, 2019. This note is secured.</p>	42,508	547,450	589,958

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2009

NOTE 4. LONG-TERM DEBT (Continued)

	Current	Long-Term	Total
<p>Walnut Village is financed with a mortgage note of \$1,395,100 with HUD, under Section 202 of the National Housing Act of 1959. The mortgage note bears interest at the rate of 6.875% per annum and is being repaid in 480 equal monthly installments of principal and interest of \$8,543 payable through September 1, 2019. This note is secured.</p>	\$ 53,615	\$ 681,978	\$ 735,593
<p>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.</p>	-	20,000	20,000
<p>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 December 31, 2010. The note is secured by a First Deed of Trust. This note is secured.</p>	-	799,747	799,747
<p>Oak Hill Apartments is financed with three United States Department of Agriculture - Rural Development promissory notes in the aggregate amount of \$4,000,000 secured by deeds of trust on the Project. The notes, dated October 28, 2004, bear interest at the rate of 1%. Principle and interest payments of \$13,205 are made monthly. All amounts are due and payable on or before October 28, 2037. Funds were first drawn on these notes during the fiscal year ended October 31, 2005. The notes were fully funded as of January, 2009. This note is secured.</p>	120,295	3,751,191	3,871,486
<p>Oak Hill Apartments is also Financed with a California Department of Housing and Community Development Home Investment Partnerships Program (HCD-HOME) promissory note for \$3,442,000 secured by the Project. The note accrues 3% simple interest and is due and payable June 1, 2060. Payments of principal and interest must be made from residual receipts as required by the Department under the terms of the Regulatory Agreement. This note is secured.</p>	-	3,442,000	3,442,000

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2009

NOTE 4. LONG-TERM DEBT (Continued)

	Current	Long-Term	Total
<p>Oak Hill apartments is also financed with a California Department of Housing and Community Development, Joe Serna Jr. Farmworker Housing Grant Program grant lien originated on January 30, 2002 in the amount of \$2,988,000, secured by deed of trust for a term of 40 years. No repayment is required as long as the Project remains in compliance with the terms of the grant lien.</p>	\$ -	\$ 2,988,000	\$ 2,988,000
<p>Oak Hill Apartments is also financed with an Affordable Housing Program (AHP) Grant Lien from National Bank of the Redwoods in the amount of \$292,500. The Agreement provides for no payments of principal or interest as long as Oak Hill Apartments remains in compliance with the AHP grant lien terms until July 26, 2022. This note is secured.</p>	-	292,500	292,500
Owned Projects Totals	458,893	19,634,789	20,093,682
Controlled Projects			
<p>Bevins Court is financed with a promissory note of \$100,000 from the County of Lake. Repayment is deferred into perpetuity as long as the project remains available for qualifying persons with disabilities. This note is secured.</p>	-	100,000	100,000
<p>Bevins Court is also 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. 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.</p>	-	68,800	68,800
<p>Bevins Court is also financed with a Capital Advance 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 for disabled persons and remains in compliance with the regulatory agreement through its maturity, the note is not required to be repaid. This note is secured.</p>	-	1,104,100	1,104,100

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2009

NOTE 4. LONG-TERM DEBT (Continued)

	Current	Long-Term	Total
<p>North Shore Villas is financed with a mortgage note of \$1,488,800 with HUD, under Section 202 of the National Housing Act of 1959. The mortgage note bears interest at the rate of 8.375% per annum and is being repaid in 480 equal monthly installments of principal and interest of \$10,773 payable through October 1, 2031. This note is secured.</p>	\$ 21,421	\$ 1,276,061	\$ 1,297,482
<p>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. 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.</p>	-	60,000	60,000
<p>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 and remains in compliance with the regulatory agreement through its maturity, the note is not required to be repaid. This note is secured.</p>	-	752,400	752,400
<p>Gibson Court is also financed with a promissory note of \$758,824 from California Department of Housing and Community Development Home Investment Partnerships Program (HOME). The note matures in May of 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. This note is secured.</p>	-	758,824	758,824
<p>Lakeview Apts. is financed with a mortgage note of \$1,656,000 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 480 equal monthly installments of principal and interest of \$13,093 payable through October 1, 2028. This note is secured.</p>	28,478	1,375,092	1,403,570

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2009

NOTE 4. LONG-TERM DEBT (Continued)

	Current	Long-Term	Total
<p>Jack Simpson Apts. is financed with a mortgage note of \$1,619,200 with HUD, under Section 202 of the National Housing Act of 1959. The mortgage note bears interest at the rate of 9.0% per annum and is being repaid in 480 equal monthly installments of principal and interest of \$12,490 payable through August 1, 2032. This note is secured.</p>	\$ 20,165	\$ 1,430,194	\$ 1,450,359
<p>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. 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 September 1, 2041 and may not be prepaid without prior written approval of HUD. Provided that the Project remains available for low-income seniors and remains in compliance with the regulatory agreement through its maturity, the note is not required to be repaid. This note is secured.</p>	-	706,000	706,000
<p>North Pine St. Apts. is also financed with a \$47,500 secured 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.</p>	-	47,500	47,500
<p>Oak Park Manor is financed with a Capital Advance 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 and remains in compliance with the regulatory agreement through its maturity, the note is not required to be repaid. This note is secured.</p>	-	1,733,300	1,733,300
<p>Siskiyou Garden Apts. is financed with a mortgage note of \$485,580 with a finance company. The mortgage note bears interest at the rate of 7% per annum and is being repaid in 210 equal monthly installments of principal and interest of \$4,007 payable through September 30, 2013. In addition, there is an interest subsidy from HUD associated with the mortgage that reduces the actual monthly payments to \$1,554. The interest subsidy is deducted monthly by the finance company directly from the contract payments. This note is secured.</p>	36,484	145,739	182,223

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2009

NOTE 4. LONG-TERM DEBT (Continued)

	Current	Long-Term	Total
<p>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. 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.</p>	\$ -	\$ 55,000	\$ 55,000
<p>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 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 2, 2041 and may not be prepaid without prior written approval of HUD. Provided that the Project remains available for low-income seniors and remains in compliance with the regulatory agreement through its maturity, the note is not required to be repaid. This note is secured.</p>	-	924,000	924,000
<p>Washington Court is also financed with a promissory note of \$212,856 from California Department of Housing and Community Development Home Investment Partnerships Program (HOME). The note matures in August of 2031 with simple 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. This note is secured.</p>	-	202,720	202,720
<p>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. 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.</p>	-	60,000	60,000

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 OCTOBER 31, 2009

NOTE 4. LONG-TERM DEBT (Continued)

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<p>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 and remains in compliance with the regulatory agreement through its maturity, the note is not required to be repaid. This note is secured.</p>	\$ -	\$ 835,800	\$ 835,800
<p>Redwood Court is financed with a mortgage note of \$1,854,944, 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 over 50 years in monthly installments of principal and interest of \$14,072 through July 2, 2037. This note is secured.</p>	14,303	1,721,473	1,735,776
<p>Redwood Court is also financed with a second mortgage note of \$76,923 that was obtained from 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 over 50 years in monthly installments of principal and interest of \$538 through February 1, 2042. In addition, there is an interest subsidy from FmHA associated with these first two 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 to \$4,098. This note is secured.</p>	425	60,565	60,990
<p>Redwood Court received an additional \$200,000 from a mortgage note secured by a deed of trust from the Fortuna Redevelopment Agency pursuant to a Promissory Note and Loan Agreement dated June 1, 2008. 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 1 so that Pine Gardens 1 could acquire the limited partnership interest in the Partnership from Beech Villa Ltd. effective August 29, 2008.</p>	-	200,000	200,000

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2009

NOTE 4. LONG-TERM DEBT (Continued)

	Current	Long-Term	Total
<p>Redwood Court also recorded a deed of trust which secures a mortgage note in favor of the State of California Department of Housing and Community Development in the amount of \$3,025,800 (Contract #05-HOME-1667) on September 15, 2008, for the purpose of rehabilitating the Project. However, construction has not yet commenced so that none of the loan funds were advanced during 2008. The note bears interest at the rate of 3% per annum simple interest and is repayable in annual installments commencing on the last day of the Initial Operating Year pursuant to the Regulatory Agreement out of Residual Receipts.</p>	\$ -	\$ 1,212,720	\$ 1,212,720
<p>Clara Court LP received a start-up loan from the Redevelopment Agency of the City of Ukiah not to exceed \$391,500 secured by the land on Clara Street bearing simple interest at 3% originally due on September 5, 2005. On February 1, 2009, the loan was restated at a maximum amount of \$632,000 with interest of 0% and repayments to be made from residual receipts. The note has been extended until permanent financing is obtained.</p>	-	632,000	632,000
<p>Clara Court LP also received a start-up loan from the Redevelopment Agency of Mendocino County in the amount of \$249,000 secured by land on Clara Street payable when primary financing is obtained. The maximum balance on the loan was increased during the year ended October 31, 2010. The note bears no interest as long as the resulting housing is affordable to low-income families.</p>	-	489,500	489,500
<p>Clara Court LP- During the year ended October 31, 2010 the agency obtained a note from Savings Bank of Mendocino County in the amount of \$50,001.</p>	50,001	-	50,001
<p>Controlled Projects Totals</p>	171,277	15,951,788	16,123,065
<p>Grand Totals</p>	\$ 4,605,964	\$ 40,115,508	\$ 44,721,472

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 OCTOBER 31, 2009

NOTE 4. LONG-TERM DEBT (Continued)

Aggregate maturities required on the mortgages payable at October 31, 2009 are as follows:

<u>Fiscal Year Ended October 31:</u>	<u>Funds</u>	<u>Owned</u>	<u>Controlled</u>	<u>Total</u>
2010	\$ 3,975,794	\$ 458,893	\$ 171,277	\$ 4,605,964
2011	509,909	1,288,022	133,406	1,931,337
2012	10,244	520,056	146,291	676,591
2013	10,764	554,541	177,420	742,725
2014	11,222	591,916	121,619	724,757
Thereafter	3,986,792	16,680,254	15,373,052	36,040,098
Total	\$ 8,504,725	\$ 20,093,682	\$ 16,123,065	\$ 44,721,472

NOTE 5. COMMITMENTS AND CONTINGENCIES

As described in Note 1, RCHDC controls the General Partner (G.P.) entities in four Limited Partnerships, which own a total of seven low-income apartment developments eligible for low income housing tax credits as follows:

<u>Controlled G.P. Entity</u>	<u>Limited Partnership</u>	<u>Apartment Developments</u>
Redwood Court Property Corporation	Redwood Court Property, A California Limited Partnership	Redwood Court Apts.
Pine Gardens I, Inc.	Orchard River Associates, L.P.	Orchard Manor Apts. Orchard Village Apts. River Gardens Apts.
CC Seabreeze, LLC *	CC Seabreeze, L.P.	Seabreeze Apts. Totem Villa Apts.
CC Seagull Villa, LLC *	CC Seagull Villa, L.P.	Seagull Villa Apts.

*Pine Gardens I, Inc. is the sole member of CC Seabreeze, LLC and CC Seagull Villa, LLC.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2009

NOTE 5. COMMITMENTS AND CONTINGENCIES (Continued)

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

A) Redwood Court Property Corporation is the General Partner in Redwood Court Property, a limited partnership formed on July 1, 1987. Although most of the ongoing obligations of the General Partner have expired, it continues to fund modest amounts of negative cash flow related to the operations of the Redwood Court Apts. On August 29, 2008, Pine Gardens I, Inc., an RCHDC controlled entity, acquired the limited partnership interest in Redwood Court Property. Therefore, Redwood Court Property is now wholly owned by controlled entities of RCHDC, and has been consolidated for presentation in these financial statements.

B) Pine Gardens I, Inc. has the following ongoing obligations related to Orchard River Associates, L.P. 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

To date these segregated Operating Reserve Accounts have not yet been established.

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 for 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 Deferred Developer Fee 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 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 projects to achieve the anticipated results. The management of the partnership believes that it is unlikely that they will have any liability related to this obligation.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 OCTOBER 31, 2009

NOTE 5. COMMITMENTS AND CONTINGENCIES (Continued)

C) CC Seabreeze, LLC (Seabreeze) and CC Seagull Villa, LLC (Seagull Villa) 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 Villa 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 for 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 Villa 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 Partnerships.
- iii) Seabreeze and Seagull Villa are required to make capital contributions for the portion of the Deferred Developer Fees 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 Villa 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 unlikely that they will have any liability related to this obligation.

NOTE 6. GAIN (LOSS) ON SALE OF DEVELOPMENT PROPERTIES

RCHDC develops real estate for sale to Self-Help families. During the fiscal year ended October 31, 2009, RCHDC reported the following gains and losses from the sale of development properties:

	Lakewood
Selling Price	\$ 1,160,000
Total Development Costs	717,243
Gain (Loss) on Sale of Development Properties	\$ 442,757

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.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 OCTOBER 31, 2009

NOTE 7. FUNCTIONAL ALLOCATION OF EXPENSES

Expenditures incurred in connection with RCHDC operations and expenditures made for corporate purposes have been summarized on a functional basis, as administrative services, in the Statement of Activities.

NOTE 8. NEIGHBORWORKS AMERICA GRANTS

During the fiscal year ended October 31, 2009, 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:

<u>Grant Type</u>	<u>Project Name</u>	<u>Amount Received</u>	<u>Unrestricted</u>	<u>Permanently Restricted</u>
Capital	Clara Court Capital Grant	\$ 44,800	\$ -	\$ 44,800
Total Neighborworks America Grants Received		<u>\$ 44,800</u>	<u>\$ -</u>	<u>\$ 44,800</u>

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

Neighborworks America Components of Permanently Restricted Assets:

Fixed Assets	\$ 744,000
Long-term notes receivable	285,000
Investment in affiliates	75,000
Development costs	<u>394,800</u>
Total Neighborworks America Permanently Restricted Assets	<u>\$ 1,498,800</u>

NOTE 9. 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. RCHDC makes monthly contribution to the account to cover expected expenses. RCHDC deposited contributions in the amount of \$26,175 to the account during the fiscal year ended October 31, 2009.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2009

NOTE 10. DEFINED CONTRIBUTION PENSION PLAN

RCHDC has a 403(b) defined contribution pension plan covering all employees with at least one year and 1,000 hours of service. RCHDC makes a matching contribution for all non-administrative employees to the plan each year, up to, but not to exceed 5% of employees' regular pay. For an employee to be eligible to receive the match, they must be employed on October 31st of the respective year. RCHDC reserves the contribution monthly and makes the deposit to the plan in the following the fiscal year. Total contributions accumulated for the year ended October 31, 2009 to be deposited to the plan amounted to \$21,723.

NOTE 11. TRANSFER OF NET ASSETS

During the fiscal year, RCHDC transferred net assets from Fund 20 to Fund 10 in the amount of \$8,622, equal to the principal reduction in the note payable, secured by RCHDC's offices, held in Fund 10 which is paid monthly by Fund 20.

NOTE 12. BUSINESS COMBINATIONS

On August 29, 2008, Pine Gardens, Inc., a controlled entity of RCHDC, acquired a 99% limited partnership interest in Redwood Court Property, a California Limited Partnership, in which Redwood Court Property Corporation, a controlled entity of RCHDC, is the 1% General Partner. Redwood Court Property owns and operates Redwood Court Apartments, a 50 unit low-income apartment Project for families located in Fortuna, California. This combination was accounted for using the purchase method of accounting resulting in a write-up of the Land and Buildings owned by Redwood Court Property in the amount of \$765,627 reflecting the purchase price paid for the 99% interest in the limited partnership acquired by Pine Gardens, I. The accompanying financial statements include operations for Redwood Court Property for the period from November 1,, 2008 through October 31, 2009.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2009

NOTE 13. RESTATEMENT

Beginning net assets were restated as follows by restriction:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets (Deficit), October 31, 2008	\$ 668,905	\$ 290,000	\$ 1,925,275	\$ 2,884,180
Depreciation expense underreported in prior years	(32,415)	-	-	(32,415)
Loan misreported as expendable grant in a prior year	(20,750)	-	-	(20,750)
Loan misreported as capital grant in a prior year	-	-	(50,000)	(50,000)
Administrative grant misreported to an Owned Project	(74,811)	-	-	(74,811)
Administrative grant net of expense not reported in Fund 21	18,750	-	-	18,750
Net Restatement	(109,226)	-	(50,000)	(159,226)
Net Assets (Deficit), November 1, 2008	\$ 559,679	\$ 290,000	\$ 1,875,275	\$ 2,724,954

Beginning net assets were restated as follows by groupings as presented in the supplemental information section:

	Funds	Owned Projects	Controlled Entities	Consolidating Entries	Total
Net Assets (Deficit), October 31, 2008	\$ 2,713,292	\$ (350,793)	\$ 852,411	\$ (330,730)	\$ 2,884,180
Depreciation expense underreported in prior years	-	(12,122)	(20,293)	-	(32,415)
Loan misreported as expendable grant in a prior year	-	-	(20,750)	-	(20,750)
Loan misreported as capital grant in a prior year	-	-	(50,000)	-	(50,000)
Administrative grant misreported to an Owned Project	-	(74,811)	-	-	(74,811)
Administrative grant net of expense not reported in Fund 21	18,750	-	-	-	18,750
Net Restatement	18,750	(86,933)	(91,043)	-	(159,226)
Net Assets (Deficit), November 1, 2008	\$ 2,732,042	\$ (437,726)	\$ 761,368	\$ (330,730)	\$ 2,724,954

NOTE 13. NET ASSETS

Under SFAS No. 117, RCHDC reports its financial position and activities according to three classes of net assets; unrestricted, temporarily restricted and permanently restricted.

Temporarily restricted net assets at October 31, 2009 of \$290,000 consists of \$135,000 representing the estimated fair market value of land obtained from the County of Lake that was purchased 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 the grant. The remaining \$70,000 and \$85,000 of temporarily restricted net assets represents grants received during the fiscal years ended October 31, 2006 and 2008 from the City of Crescent City to be used for the rehabilitation of three low-income housing apartments in Crescent City, California. The terms of these grants require that the three low-income housing projects in Crescent City remain affordable for 55 years from the dates of the grants.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 OCTOBER 31, 2009

NOTE 13. NET ASSETS (Continued)

Permanently restricted net assets at October 31, 2009 consisted of the following:

NeighborWorks America	\$ 1,498,800
HOME	221,275
Cowell Foundation	<u>250,000</u>
Total Permanently Restricted Net Assets	<u>\$ 1,970,075</u>

NOTE 14. BUSINESS CONDITIONS – OAK HILL APARTMENTS

In the years ended October 31, 2008 and 2009, the Project was unable to fund any of the replacement reserve contributions required pursuant to the Project’s loan agreements with USDA/RD, HCD/Home, or HCD/Joe Serna and the Project was unable to pay all of its expenses to RCHDC for Property Insurance, Management Fees, and Laundry Contract obligations. Part of the reason for this shortfall in the operating cash flow of the Project relates to the fact that the Project was involved in leasing its vacant units for most of the year ended October 31, 2008 and again for the year ended October 31, 2009. Therefore, revenue fell short of expectations, and the Rental Assistance Subsidy from USDA/RD was much less than anticipated due to the fact that Rental Assistance is only available to occupied units. Based upon the budget that has been prepared for the period covering the fiscal year ended October 31, 2010, management anticipates that the Project may be able to achieve a small positive cash flow for this subsequent period. However, the anticipated cash flow for the fiscal year ended October 31, 2010, is not expected to be adequate enough to make up for the significant shortfalls that occurred during the years ended October 31, 2008 and 2009. Additionally, cash flow for the period subsequent to October 31, 2009, through the date of our report, appears to be significantly less than the amount budgeted and, once again, may not be adequate enough to fully fund required Replacement Reserves for this subsequent period.

Management’s Plan to Address the Business Conditions Issue

- Since approximately January 2010 Oak Hill vacancy rate has been at 5% or lower (it is currently at 0%).
- A new Community Needs Assessment has been completed and just submitted to HOME, Joe Serna and USDA RD, along with other documentation to request a waiver of “farm worker” eligibility requirements. The problem with leasing to full capacity has been the “transiency” and eligibility of the farm workers. Management fully expects this trend to continue. A waiver would allow non-farm workers to lease apartments provided they meet other requirements of the regulatory agreement.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2009

NOTE 14. BUSINESS CONDITIONS – OAK HILL APARTMENTS (Continued)

- Management is developing a plan for presentation to HOME which involves borrowing from Operating Reserves to fund Replacement Reserves. If occupancy is maintained at 95-100% (with a waiver management feels this is possible) management will develop a plan to repay outstanding debt including replacement reserves. This approach will take time, but establishing a financial plan that includes timelines and goals will enable the Project to stay in compliance with all Regulatory Agreements.

SUPPLEMENTAL INFORMATION SECTION

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
OCTOBER 31, 2009

ASSETS	Funds	Owned Projects	Controlled Entities	Consolidating Entries	Totals
Current Assets:					
Cash and cash equivalents	\$ 571,783	\$ 363,196	\$ 117,988	\$ -	\$ 1,052,967
Net tenant accounts receivable	-	6,982	2,464	-	9,446
Tenant assistance accounts receivable	-	13,167	26,248	-	39,415
Other accounts receivable	3,161	2,204	1,346	-	6,711
Due from funds	-	365	1,573	(1,938)	-
Due from owned projects	519,936	-	-	(519,936)	-
Due from controlled entities	340,192	-	-	(340,192)	-
Due from related parties	1,391,754	-	177,727	-	1,569,481
Prepaid expenses	15,855	85,104	48,858	-	149,817
Total Current Assets	2,842,681	471,018	376,204	(862,066)	2,827,837
Deposits:					
Tenant deposits held in trust	-	94,979	80,529	-	175,508
Tax and insurance impounds	-	124,493	97,179	-	221,672
Replacement reserve	-	1,443,229	678,960	-	2,122,189
Other required reserves	-	833,248	92,512	-	925,760
Residual receipts reserve	-	122,604	421,787	-	544,391
Cash restricted for pension plan	19,879	-	-	-	19,879
Cash restricted for self-insurance plan	26,188	-	-	-	26,188
Total Deposits	46,067	2,618,553	1,370,967	-	4,035,587
Fixed Assets net of Accumulated Depreciation	868,979	16,959,206	12,691,199	-	30,519,384
Other Assets:					
Long-term notes receivable	2,066,204	-	-	-	2,066,204
Investment in affiliates	-	-	446,048	(330,730)	115,318
Land held for development	3,491,072	-	430,000	-	3,921,072
Development costs	5,355,055	802,815	2,257,138	-	8,415,008
Total Other Assets	10,912,331	802,815	3,133,186	(330,730)	14,517,602
Total Assets	\$ 14,670,058	\$ 20,851,592	\$ 17,571,556	\$ (1,192,796)	\$ 51,900,410
LIABILITIES AND NET ASSETS (DEFICIT)					
Liabilities:					
Current Liabilities:					
Checks issued in excess of deposits	\$ -	\$ -	\$ 706	\$ -	\$ 706
Accounts payable and accrued liabilities	620,671	68,127	79,251	-	768,049
Accrued interest payable	2,629	51,084	31,815	-	85,528
Due to funds	-	519,936	340,192	(860,128)	-
Due to owned properties	365	-	-	(365)	-
Due to controlled properties	1,573	-	-	(1,573)	-
Due to related parties	-	-	6,472	-	6,472
Current portion mortgages and notes payable	3,975,794	458,893	171,277	-	4,605,964
Deferred revenue	22,337	12,493	13,686	-	48,516
Total Current Liabilities	4,623,369	1,110,533	643,399	(862,066)	5,515,235
Long-Term Liabilities:					
Tenant deposits held in trust	6,018	96,969	80,529	-	183,516
Accrued interest payable	258,071	679,717	254,805	-	1,192,593
Mortgages and notes payable	4,528,931	19,634,789	15,951,788	-	40,115,508
Total Long-Term Liabilities	4,793,020	20,411,475	16,287,122	-	41,491,617
Total Liabilities	9,416,389	21,522,008	16,930,521	(862,066)	47,006,852
Net Assets (Deficit):					
Unrestricted	4,047,394	(1,080,416)	92,035	(330,730)	2,728,283
Temporarily restricted	155,000	-	135,000	-	290,000
Permanently restricted	1,051,275	410,000	414,000	-	1,875,275
Total Net Assets (Deficit)	5,253,669	(670,416)	641,035	(330,730)	4,893,558
Total Liabilities and Net Assets (Deficit)	\$ 14,670,058	\$ 20,851,592	\$ 17,571,556	\$ (1,192,796)	\$ 51,900,410

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATING SCHEDULE OF ACTIVITIES
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2009

REVENUES	Funds	Owned Projects	Controlled Entities	Consolidating Entries	Total
Net tenant rents	\$ -	\$ 996,160	\$ 870,703	\$ -	\$ 1,866,863
Tenant assistance payments	-	2,028,711	1,070,961	-	3,099,672
Other rents	107,040	-	-	-	107,040
Grant income	561,218	-	44,800	-	606,018
Interest income	1,499	22,444	4,883	-	28,826
Management fees and reimbursements	678,020	-	61,002	(458,169)	280,853
Operational revenue	1,742,970	16,841	7,703	-	1,767,514
Other revenue	507,203	5,128	95,371	-	607,702
Gain (loss) on sale of development properties	442,757	-	-	-	442,757
Total Revenues	4,040,707	3,069,284	2,155,423	(458,169)	8,807,245
EXPENSES					
Administrative services	1,084,291	423,500	364,817	-	1,872,608
Management Fees	-	235,231	185,858	(421,089)	-
Bookkeeping and Accounting Fees	-	16,380	20,700	(37,080)	-
Utilities	29,801	256,307	304,080	-	590,188
Operating and maintenance:					
Operating accounts	111,679	607,061	346,800	-	1,065,540
Replacement reserve and residual receipts accounts	-	71,197	44,440	-	115,637
Taxes and insurance	209,725	221,508	152,052	-	583,285
Interest expense	39,568	805,530	447,362	-	1,292,460
Amortization and depreciation	44,016	665,260	409,647	-	1,118,923
Total Expenses	1,519,080	3,301,974	2,275,756	(458,169)	6,638,641
Change In Net Assets	2,521,627	(232,690)	(120,333)	-	2,168,604
Net Assets (Deficit), Beginning	2,732,042	(437,726)	761,368	(330,730)	2,724,954
Net Assets (Deficit), Ending	\$ 5,253,669	\$ (670,416)	\$ 641,035	\$ (330,730)	\$ 4,893,558

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATING SCHEDULE OF CASH FLOWS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2009

CASH FLOWS FROM OPERATING ACTIVITIES	Funds	Owned Projects	Controlled Entities	Consolidating Entries	Totals
Change in Total Net Assets from Operations	\$ 2,521,627	\$ (232,690)	\$ (120,333)	\$ -	\$ 2,168,604
Adjustments to Reconcile Changes in Net Asset to Net cash Provided by (Used in) Operating Activities:					
Increase in long-term accrued interest	56,391	175,250	30,847	-	262,488
Forgiveness of long-term accrued interest	-	-	(42,803)	-	(42,803)
Amortization and Depreciation	44,016	665,260	409,647	-	1,118,923
Gain (loss) on sale of development properties	(442,757)	-	-	-	(442,757)
Decrease (Increase) in:					
Net tenant accounts receivable	1,918	(78)	(468)	-	1,372
Tenant assistance accounts receivable	-	19,298	(14,110)	-	5,188
Other accounts receivable	2,146	(106)	19	-	2,059
Due from funds	-	(365)	(1,573)	1,938	-
Due from owned properties	(8,786)	-	-	8,786	-
Due from controlled properties	287,353	1,427	218,007	(506,787)	-
Prepaid expenses	252	8,480	(13,828)	-	(5,096)
Increase (Decrease) in:					
Checks issued in excess of deposits	(1,366,512)	-	706	-	(1,365,806)
Accounts payable and accrued liabilities	235,542	(9,802)	11,105	-	236,845
Accrued interest payable	(29,121)	(3,319)	(2,747)	-	(35,187)
Due to funds	-	8,678	(287,245)	278,567	-
Due to Owned Properties	365	-	(1,427)	1,062	-
Due to controlled properties	1,573	-	(218,007)	216,434	-
Deferred revenue	(1,918)	4,718	6,870	-	9,670
Net Cash Provided by (Used in) Operating Activities	<u>1,302,089</u>	<u>636,751</u>	<u>(25,340)</u>	<u>-</u>	<u>1,913,500</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Decrease (Increase) in:					
Tenant deposits held in trust	(780)	(5,587)	-	-	(6,367)
Tax and insurance impounds	-	(28,271)	5,520	-	(22,751)
Replacement reserve	-	(141,812)	(27,983)	-	(169,795)
Capital investment	-	-	-	-	-
Other reserves	-	(54,884)	(92,512)	-	(147,396)
Residual receipts reserve	-	(34,329)	(37,208)	-	(71,537)
Cash restricted for pension plan	3,167	-	-	-	3,167
Cash restricted for self-insurance plan	6,190	-	-	-	6,190
Cash restricted until completion of project	-	-	-	-	-
Purchase of fixed assets	-	(50,174)	(36,237)	-	(86,411)
Decrease (Increase) in due from related parties	(979,470)	-	(61,002)	-	(1,040,472)
Increase in long-term notes receivable	(1,058,349)	-	-	-	(1,058,349)
Increase in investment in affiliates	-	-	-	-	-
Proceeds on sale of developed lots	1,160,000	-	-	-	1,160,000
Development costs	(2,546,061)	(99,966)	(1,401,506)	-	(4,047,533)
Net Cash Provided by (Used in) Investing Activities	<u>(3,415,303)</u>	<u>(415,023)</u>	<u>(1,650,928)</u>	<u>-</u>	<u>(5,481,254)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from mortgages and notes payable	3,398,840	175,000	1,835,221	-	5,409,061
Increase (Decrease) in due to related parties	(453,110)	-	(940)	-	(454,050)
Payments of long-term accrued interest	(85,609)	-	-	-	(85,609)
Increase in CDC investment in Lake Mendocino Drive	(471,000)	-	-	-	(471,000)
Principal payments on mortgages and notes payable	(994,026)	(420,121)	(181,029)	-	(1,595,176)
Net Cash Provided by (Used in) Financing Activities	<u>1,395,095</u>	<u>(245,121)</u>	<u>1,653,252</u>	<u>-</u>	<u>2,803,226</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(718,119)	(23,393)	(23,016)	-	(764,528)
Cash and Cash Equivalents, Beginning	1,289,902	386,589	141,004	-	1,817,495
Cash and Cash Equivalents, Ending	<u>\$ 571,783</u>	<u>\$ 363,196</u>	<u>\$ 117,988</u>	<u>\$ -</u>	<u>\$ 1,052,967</u>
SUPPLEMENTAL DISCLOSURES					
Amounts Paid for Interest	<u>\$ 12,298</u>	<u>\$ 633,599</u>	<u>\$ 419,262</u>	<u>\$ -</u>	<u>\$ 1,065,159</u>
Amounts Paid for Income Tax	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
NON CASH INVESTING AND FINANCING ACTIVITIES					
Increase in long-term accrued interest	<u>\$ 56,391</u>	<u>\$ 175,250</u>	<u>\$ 30,847</u>	<u>\$ -</u>	<u>\$ 262,488</u>
Forgiveness of long-term accrued interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (42,803)</u>	<u>\$ -</u>	<u>\$ (42,803)</u>

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATING FUND SCHEDULE OF FINANCIAL POSITION
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2009

ASSETS	Funds						Consolidating Entries	Totals	
	10	20	21	22	23	70			90
Current Assets:									
Cash and cash equivalents	\$ 9,768	\$ 11,499	\$ 96,088	\$ 74,401	\$ -	\$ -	\$ 380,027	\$ -	\$ 571,783
Other accounts receivable	-	3,139	22	-	-	-	-	-	3,161
Due from fund 10	-	300	-	-	-	-	-	(300)	-
Due from Fund 21	110,314	6,831	-	816,650	-	-	-	(933,795)	-
Due from Fund 22	-	450	-	-	-	-	-	(450)	-
Due from Fund 23	-	7,542	1,050,197	-	-	-	-	(1,057,739)	-
Due from Fund 70	-	3,210	-	-	-	-	-	(3,210)	-
Due from owned projects	30,000	44,816	427,676	17,444	-	-	-	-	519,936
Due from controlled entities	63,661	93,047	157,156	26,328	-	-	-	-	340,192
Due from related parties	-	53,007	1,330,355	8,392	-	-	-	-	1,391,754
Prepaid expenses	-	11,083	1,199	2,665	102	806	-	-	15,855
Total Current Assets	213,743	234,924	3,062,693	945,880	102	806	380,027	(1,995,494)	2,842,681
Deposits:									
Cash restricted for pension plan	19,879	-	-	-	-	-	-	-	19,879
Cash restricted for self-insurance plan	26,188	-	-	-	-	-	-	-	26,188
Total Deposits	46,067	-	-	-	-	-	-	-	46,067
Fixed Assets net of Accumulated Depreciation	868,979	-	-	-	-	-	-	-	868,979
Other Assets:									
Long-term notes receivable	716,898	-	1,349,256	-	-	50	-	-	2,066,204
Land held for development	-	-	3,491,072	-	-	-	-	-	3,491,072
Development costs	-	-	5,355,055	-	-	-	-	-	5,355,055
Total Other Assets	716,898	-	10,195,383	-	-	50	-	-	10,912,331
Total Assets	\$ 1,845,687	\$ 234,924	\$ 13,258,076	\$ 945,880	\$ 102	\$ 856	\$ 380,027	\$ (1,995,494)	\$ 14,670,058
LIABILITIES AND NET ASSETS (DEFICIT)									
Liabilities:									
Current Liabilities:									
Accounts payable and accrued liabilities	\$ 45,746	\$ 129,574	\$ 28,976	\$ 16,103	\$ 4,211	\$ 16,034	\$ 380,027	\$ -	\$ 620,671
Accrued interest payable	-	2,629	-	-	-	-	-	-	2,629
Due to fund 20	300	-	6,831	7,542	450	3,210	-	(18,333)	-
Due to Fund 21	-	1,388,668	-	-	180,400	408,093	-	(1,977,161)	-
Due to owned properties	-	365	-	-	-	-	-	-	365
Due to controlled entities	-	1,573	-	-	-	-	-	-	1,573
Current portion mortgages and notes payable	9,007	-	3,966,787	-	-	-	-	-	3,975,794
Deferred revenue	2,337	-	20,000	-	-	-	-	-	22,337
Total Current Liabilities	57,390	1,522,809	4,022,594	23,645	185,061	427,337	380,027	(1,995,494)	4,623,369
Long-Term Liabilities:									
Tenant deposits held in trust	6,018	-	-	-	-	-	-	-	6,018
Accrued interest payable	-	-	258,071	-	-	-	-	-	258,071
Mortgages and notes payable	698,484	-	3,830,447	-	-	-	-	-	4,528,931
Total Long-Term Liabilities	704,502	-	4,088,518	-	-	-	-	-	4,793,020
Total Liabilities	761,892	1,522,809	8,111,112	23,645	185,061	427,337	380,027	(1,995,494)	9,416,389
Net Assets (Deficit):									
Unrestricted	1,083,795	(1,287,885)	3,940,689	922,235	(184,959)	(426,481)	-	-	4,047,394
Temporarily restricted	-	-	155,000	-	-	-	-	-	155,000
Permanently restricted	-	-	1,051,275	-	-	-	-	-	1,051,275
Total Net Assets (Deficit)	1,083,795	(1,287,885)	5,146,964	922,235	(184,959)	(426,481)	-	-	5,253,669
Total Liabilities and Net Assets (Deficit)	\$ 1,845,687	\$ 234,924	\$ 13,258,076	\$ 945,880	\$ 102	\$ 856	\$ 380,027	\$ (1,995,494)	\$ 14,670,058

**RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATING FUND SCHEDULE OF ACTIVITIES
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2009**

	Funds						Consolidating Entries	Total
	10	20	21	22	23	70		
REVENUES								
Other rents	\$ -	\$ 107,040	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 107,040
Grant income	-	175,000	372,768	-	13,450	-	-	561,218
Interest income	15	248	1,236	-	-	-	-	1,499
Management fees and reimbursements	-	43,024	-	634,996	-	-	-	678,020
Operational revenue	-	87,266	1,653,894	-	1,810	-	-	1,742,970
Other revenue	458,899	1,391	46,888	-	-	25	-	507,203
Gain (loss) on sale of development properties	-	-	442,757	-	-	-	-	442,757
Total Revenues	458,914	413,969	2,517,543	634,996	15,260	25	-	4,040,707
EXPENSES								
Administrative services	-	562,435	200,333	233,290	11,121	77,112	-	1,084,291
Utilities	-	29,801	-	-	-	-	-	29,801
Operating and maintenance:								
Operating accounts	-	40,512	1,786	107	1,683	67,591	-	111,679
Taxes and insurance	-	89,979	32,061	39,204	2,237	46,244	-	209,725
Interest expense	-	33,787	5,781	-	-	-	-	39,568
Amortization and depreciation	44,016	-	-	-	-	-	-	44,016
Total Expenses	44,016	756,514	239,961	272,601	15,041	190,947	-	1,519,080
Change In Net Assets	414,898	(342,545)	2,277,582	362,395	219	(190,922)	-	2,521,627
Transfer of Net Assets	8,622	(8,622)	-	-	-	-	-	-
Net Assets (Deficit), Beginning	660,275	(936,718)	2,869,382	559,840	(185,178)	(235,559)	-	2,732,042
Net Assets (Deficit), Ending	\$ 1,083,795	\$ (1,287,885)	\$ 5,146,964	\$ 922,235	\$ (184,959)	\$ (426,481)	\$ -	\$ 5,253,669

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATING FUND SCHEDULE OF CASH FLOWS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2009

CASH FLOWS FROM OPERATING ACTIVITIES	Funds							Consolidating Entries	Total
	10	20	21	22	23	70	90		
Change in Total Net Assets from Operations	\$ 414,898	\$ (342,545)	\$ 2,277,582	\$ 362,395	\$ 219	\$ (190,922)	\$ -	\$ -	\$ 2,521,627
Adjustments to Reconcile Changes in Net Asset to Net cash Provided by (Used in) Operating Activities:									
Increase in long-term accrued interest	-	-	56,391	-	-	-	-	-	56,391
Amortization and Depreciation	44,016	-	-	-	-	-	-	-	44,016
Gain (loss) on sale of development properties	-	-	(442,757)	-	-	-	-	-	(442,757)
Decrease (Increase) in:									
Net tenant accounts receivable	-	1,918	-	-	-	-	-	-	1,918
Other accounts receivable	-	(528)	-	2,674	-	-	-	-	2,146
Due from fund 21	(110,314)	3,087	-	(816,650)	-	-	-	923,877	-
Due from Fund 22	-	47	-	-	-	-	-	(47)	-
Due from Fund 23	-	3,416	(1,050,197)	-	-	-	-	1,046,781	-
Due from Fund 60	-	176	-	-	-	-	-	(176)	-
Due from owned properties	-	(8,152)	14,931	(15,565)	-	-	-	-	(8,786)
Due from controlled properties	20,222	3,754	273,913	(10,536)	-	-	-	-	287,353
Prepaid expenses	-	4,318	(493)	(2,665)	(102)	(806)	-	-	252
Increase (Decrease) in:									
Checks issued in excess of deposits	-	(970,190)	-	-	(180,334)	(215,988)	-	-	(1,366,512)
Accounts payable and accrued liabilities	(9,371)	(70,974)	(52,664)	(7,316)	(136)	(1,139)	377,142	-	235,542
Accrued interest payable	-	2,629	(31,750)	-	-	-	-	-	(29,121)
Due to Fund 20	-	-	(3,087)	(3,416)	(47)	(176)	-	6,726	-
Due to Fund 21	-	1,388,668	-	-	180,400	408,093	-	(1,977,161)	-
Due to Owned Properties	-	365	-	-	-	-	-	-	365
Due to controlled properties	-	1,573	-	-	-	-	-	-	1,573
Deferred revenue	(1,918)	-	-	-	-	-	-	-	(1,918)
Net Cash Provided by (Used in) Operating Activities	357,533	17,562	1,041,869	(491,079)	-	(938)	377,142	-	1,302,089
CASH FLOWS FROM INVESTING ACTIVITIES									
Decrease (Increase) in:									
Tenant Deposits Held in Trust	(780)	-	-	-	-	-	-	-	(780)
Cash restricted for pension plan	3,167	-	-	-	-	-	-	-	3,167
Cash restricted for self-insurance plan	6,190	-	-	-	-	-	-	-	6,190
Cash restricted until completion of project	-	-	-	-	-	-	-	-	-
Decrease (Increase) in due from related parties	-	(679)	(970,399)	(8,392)	-	-	-	-	(979,470)
Increase in long-term notes receivable	(458,898)	-	(600,389)	-	-	938	-	-	(1,058,349)
Proceeds on sale of developed lots	-	-	1,160,000	-	-	-	-	-	1,160,000
Development costs	-	-	(2,546,061)	-	-	-	-	-	(2,546,061)
Transfer of net assets	8,622	(8,622)	-	-	-	-	-	-	-
Net Cash Provided by (Used in) Investing Activities	(441,699)	(9,301)	(2,956,849)	(8,392)	-	938	-	-	(3,415,303)
CASH FLOWS FROM FINANCING ACTIVITIES									
Proceeds from mortgages and notes payable	-	-	3,398,840	-	-	-	-	-	3,398,840
Increase (Decrease) in due to related parties	-	-	(453,110)	-	-	-	-	-	(453,110)
Payments of long-term accrued interest	-	-	(85,609)	-	-	-	-	-	(85,609)
Increase in CDC investment in Lake Mendocino Drive	-	-	(471,000)	-	-	-	-	-	(471,000)
Principal payments on mortgages and notes payable	(8,622)	-	(985,404)	-	-	-	-	-	(994,026)
Net Cash Provided by (Used in) Financing Activities	(8,622)	-	1,403,717	-	-	-	-	-	1,395,095
Net Increase (Decrease) in Cash and Cash Equivalents	(92,788)	8,261	(511,263)	(499,471)	-	-	377,142	-	(718,119)
Cash and Cash Equivalents, Beginning	102,556	3,238	607,351	573,872	-	-	2,885	-	1,289,902
Cash and Cash Equivalents, Ending	\$ 9,768	\$ 11,499	\$ 96,088	\$ 74,401	\$ -	\$ -	\$ 380,027	\$ -	\$ 571,783
SUPPLEMENTAL DISCLOSURES									
Amounts Paid for Interest	\$ -	\$ 31,158	\$ (18,860)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,298
Amounts Paid for Income Tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
NON CASH INVESTING AND FINANCING ACTIVITIES									
Increase in long-term accrued interest	\$ -	\$ -	\$ 56,391	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 56,391
Forgiveness of long-term accrued interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
OCTOBER 31, 2009

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Expenditures			Total
		Funds	Owned Projects	Controlled Projects	
Federal Programs:					
U.S. Department of Agriculture:					
Farm Labor Housing Loans and Grants	10.405	\$ -	\$ 3,871,486	\$ -	\$ 3,871,486
Rural Rental Housing Loans (Sections 515 and 521)	10.415	-	3,480,227	1,803,660	5,283,887
Total U.S. Department of Agriculture		-	7,351,713	1,803,660	9,155,373
U.S. Department of Housing and Urban Development:					
Mortgage Insurance For The Purchase or Refinancing of Existing Multifamily Housing Projects (Section 223(f)/207)	14.155	-	-	182,223	182,223
Supportive Housing For The Elderly (Section 202)	14.157	-	4,070,538	8,350,511	12,421,049
Supportive Housing For Persons with Disabilities (Section 811)	14.181	-	-	1,856,500	1,856,500
Section 8 Housing Assistance Payments Program (Pass-Through Contract Administrator)	14.195	-	1,689,037	1,026,250	2,715,287
Home Investment Partnerships Program (HOME) (Pass-Through California Department of Housing & Community Development)	14.239	315,441	4,567,862	2,174,264	7,057,567
Total U.S. Department of Housing and Urban Development		315,441	10,327,437	13,589,748	24,232,626
NeighborWorks America:					
Capital Grants	14.000	-	-	44,800	44,800
Total U.S. NeighborWorks America		-	-	44,800	44,800
Total Federal Awards Expended		\$ 315,441	\$ 17,679,150	\$ 15,438,208	\$ 33,432,799

NOTE 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Rural Communities Housing Development Corporation and its 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 financial statements.

OTHER INDEPENDENT AUDITOR'S REPORTS

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

Board of Directors
Rural Communities Housing Development Corporation
Ukiah, California

We have audited the consolidated financial statements of Rural Communities Housing Development Corporation (a nonprofit organization) and its affiliates (Organization) as of and for the year ended October 31, 2009, and have issued our report thereon dated June 25, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting in order to determine our auditing procedures 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 Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting as items 2009-1 and 2009-2.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the consolidated financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of 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 statement 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2009-1 and 2009-2.

We noted certain matters that we reported to management of Rural Communities Housing Development Corporation in a separate letter dated June 25, 2010.

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the audit committee, Board of Directors, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

 Robertson & Associates, CPAs

Lakeport, California
June 25, 2010

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Rural Communities Housing Development Corporation
Ukiah, California

Compliance

We have audited the compliance of Rural Communities Housing Development Corporation and its affiliates (Organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended October 31, 2009. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

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 the Organization's 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. Our audit does not provide a legal determination of the Organization's compliance with those requirements.

As described in items 2009-1 and 2009-2 in the accompanying schedule of findings and questioned costs, the Organization did not comply with requirements regarding the set aside of replacement reserves for Oak Hill Apartments as required by USDA - RD, HUD - HOME and HCD - Joe Serna loan agreements as well as the set aside of replacement reserves as required by the regulatory agreement for North Shore Villa. Compliance with such requirements is necessary, in our opinion, for the Organization to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Organization complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended October 31, 2009. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2009-1 and 2009-2.

Internal Control over Compliance

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 the Organization's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2009-1 and 2009-2 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We do not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

The Organization's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management, audit committee, Board of Directors, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robinson & Associates, CPAs

Lakeport, California

June 25, 2010

AUDITOR'S FINDINGS AND QUESTIONED COSTS

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OCTOBER 31, 2009

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	<i>unqualified</i>		
Internal control over financial reporting:			
Material weakness identified?	_____	Yes	_____ <u>X</u> _____
Control deficiency identified not considered to be material weaknesses?	<u>X</u> _____	Yes	_____ None
Noncompliance material to financial statements noted?	_____	Yes	_____ <u>X</u> _____

Federal Awards

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

Identification of major program

CFDA Number	Name of Federal Program or Cluster
10.405	Farm Labor Housing Loans and Grants
10.415	Rural Rental Housing Loans
14.157	Supportive Housing For The Elderly
14.181	Supportive Housing For Persons with Disabilities
14.239	Home Investment Partnerships Program (HOME)

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000		
Auditee qualified as low-risk auditee?	_____	Yes	_____ <u>X</u> _____

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CURRENT YEAR FINDINGS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2009

SECTION II – FINANCIAL STATEMENT FINDINGS

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Oak Hill Apartments – Rural Development Project #04-017-868897735

2009-1 Failure to Fund the Replacement Reserve – CFDA Numbers 10.415 / 14.239

Condition

The Project failed to set aside any required Reserves for Replacements into a separate Replacement Reserve Bank Account for the fiscal year ended October 31, 2009.

Effect

The Replacement Reserve Bank Account was underfunded by \$83,462 pursuant to the Rural Development Regulatory Agreement.

Cause

Due to the excessive vacancies of the Project, cash flow from operations was inadequate to set aside any Reserves for Replacements during the first two years of operations ended October 31, 2009.

Criteria

The Regulatory Agreements from Rural Development, HCD – HOME and HCD – Joe Serna that govern this Project together with HB-2-3560, Chapter 4, Paragraph 4.3(C), require that a predetermined amount of Reserves for Replacements be transferred from operations on a monthly basis and deposited into a properly designated Replacement Reserve Bank Account.

Recommendation

The Replacement Reserve Bank Account should be funded with \$83,462 as soon as possible. As a possible alternative, the Project Owner may negotiate written waivers from Rural Development and HCD – HOME.

Organization Response and Action Plan

During the fiscal year 08-09 Oak Hill saw several vacant units that remained vacant for a number of months. The cause of this was due to the property not being supervised properly by the Regional Manager who had direct oversight. This resulted in on-site staff failing to do what was necessary to rent vacancies timely. Both the Regional Manager and the site staff employed during that time are no longer working for RCHDC. Going forward Property Management corporate staff will take a more hands on approach in monitoring the vacancy loss and cash flow of Oak Hill. The new Regional Manager and site staff will address vacant units immediately. Continuous effort will be made to increase marketing efforts to increase waiting list numbers to create a reserve of applicants to fill vacant units quickly. Additionally expenses will be monitored and costs will be kept to a minimum to ensure each month the required Replacement Reserve deposit will be made.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CURRENT YEAR FINDINGS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2009

Oak Hill Apartments – Rural Development Project #04-017-868897735

2009-1 Failure to Fund the Replacement Reserve – CFDA Numbers 10.415 / 14.239
(Continued)

A further issue that has complicated maintaining a high occupancy rate is the fact that there has been a decrease in the number of eligible farm laborers in the area. RCHDC has made efforts to obtain a waiver of this occupancy requirement but this process has not yet been completed due to the extensive nature of the waiver requirements and a lack of capital to fund the new market study that must be conducted.

Furthermore, RCHDC is in the process of requesting a waiver from USDA - RD and HUD to forgive the past lack of funding to the reserve account. Thus far, this has not been approved; however, we will continue to pursue this avenue.

In the first quarter of the 09-10 year, the property has achieved 100% occupancy. This will increase revenue and might enable the property to meet its Replacement Reserve transfer obligation. If USDA - RD and HUD forgive the past under - funding of the Replacement Reserve Bank Account and the property continues to maintain a high level of occupancy, we should be able to make regular deposits into the reserve account, achieving compliance with the regulatory agreements.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CURRENT YEAR FINDINGS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2009

North Shore Villas – HUD Project #121-EH-276-NP-WAH-L8

2009-2 Failure to Fully Fund Reserve for Replacement – CFDA Number 14.457

Condition

The Project failed to set aside the required Reserves for Replacement into a separate Replacement Reserve Bank Account for the fiscal year ended October 31, 2009.

Effect

The Replacement Reserve Bank Account was underfunded by \$6,000 pursuant to the U.S. Department of Housing and Urban Development Regulatory Agreement.

Cause

Property Management was not able to timely rent vacant units, leading to a cash shortage.

Criteria

The Regulatory Agreement from the U.S. Department of Housing and Urban Development that affects this Project requires that a predetermined amount of funds designated as Reserves for Replacements be transferred from operations on a monthly basis and deposited into a properly designated Replacement Reserve Bank Account for the purpose of funding future repairs and replacements on the Project.

Recommendation

Property Management should timely rent vacant units and fully fund the Replacement Reserve Bank Account.

Project Response and Action Plan

During the fiscal year 08-09 North Shore Villas saw several vacant units that remained vacant for several months. The cause of this was due to the property not being supervised properly by the Regional Manager who had direct oversight. This resulted in on-site staff failing to do what was necessary to rent vacancies timely. Both the Regional Manager and the site staff employed during that time are no longer working for RCHDC. Going forward Property Management corporate staff will take a more hands on approach in monitoring the vacancy loss and cash flow of North Shore Villa. The new Regional Manager and site staff will address vacant units immediately. Continuous effort will be made to increase marketing efforts to increase waiting list numbers to create a reserve of applicants to fill vacant units quickly. Additionally expenses will be monitored and costs will be kept to a minimum to ensure each month the required Replacement Reserve deposit will be made.

In the first quarter of the 09-10 year, the property has achieved 100% occupancy. This will increase revenue and enable the property to meet its Replacement Reserve transfer obligation. The \$6,000 the Replacement Reserve was underfunded will be transferred into the Replacement Reserve Account by increasing the monthly transfer by \$1,000 for six months beginning the month of February 2010.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CORRECTIVE ACTION PLAN
OCTOBER 31, 2009

A Corrective Action Plan is not available and has not been submitted with the audited financial statements. If required, RCHDC will prepare its Corrective Action Plan and will submit it to all recipients of the audit report within sixty days of the issue date of the report.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2009

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Explanation, If Not Implemented</u>
<p>2008-1 Oak Hill Apartments: The books and records prepared by the RCHDC for Oak Hill Apartments were not in adequate condition to prepare accurate financial statements which could be readily audited following the closing of the books for the period ended October 31, 2008. Senior financial staff members should be able to remain consistently committed to the accounting and financial aspects of the Company such that accurate financial statements can be generated which can be readily audited.</p>	Implemented	
<p>2008-2 Oak Hill Apartments: As of October 31, 2008, approximately one-half of the Security Deposits collected from sixteen tenants during the lease-up of Oak Hill Apartments were inappropriately deposited into the Construction Bank Account rather than into a separate Security Deposit Bank Account. The \$5,600 of Security Deposits collected from tenants that were inappropriately deposited into the Construction Account should be transferred into the Security Deposit Bank Account as soon as possible. Procedures should be followed to insure that Tenant Security Deposits received from tenants are always promptly deposited into a segregated Security Deposit Bank Account.</p>	Implemented	

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2009

2008-3 **Oak Hill Apartments:**

Oak Hill Apartments failed to set aside any required Reserves for Replacements into a separate Replacement Reserve Bank Account for the fiscal year ended October 31, 2008. The Replacement Reserve Bank Account for Oak Hill apartments should be funded with \$41,731 as soon as possible. As a possible alternative, RCHDC may negotiate written waivers from Rural Development and HCD – HOME.

Repeated See Recommendation 2009-1.

2008-4 **Bevins Court Apartments:**

Bevins Court Apartments did not properly compute surplus cash. Bevins Court Apartments should properly classify liabilities and transfer surplus cash to a residual receipts account.

Implemented