

RURAL COMMUNITIES
HOUSING DEVELOPMENT CORPORATION

ANNUAL FINANCIAL REPORT

OCTOBER 31, 2010

ROBERTSON & ASSOCIATES, CPAs
A Professional Corporation

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
ORGANIZATION
OCTOBER 31, 2010

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>
William Thompson, Chairperson	March 11, 2005	November 2013
Peter Klein, Vice Chairperson	July 28, 2008	November 2011
Charlotte Watkins, Secretary	October 25, 2010	November 2011
Gary Mirata, Treasurer	August 31, 2009	November 2013
Marlene Ruiz	October 26, 2009	November 2011
Raymond Hall	September 28, 2009	November 2011
Mark Rohloff	February 28, 2011	November 2015

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
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Communities Housing Development Corporation
Ukiah, California

We have audited the accompanying statement of financial position of Rural Communities Housing Development Corporation (Organization), as of October 31, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rural Communities Housing Development Corporation as of October 31, 2010, 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 April 25, 2011, on our consideration of the Organization's internal control over financial reporting and 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 financial statements as a whole. The accompanying supplementary information on pages 32 to 38 is presented for purposes of additional analysis and is not a required part of the financial statements of the Project. 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Robertson & Associates, CPAs

Lakeport, California

April 25, 2011

FINANCIAL SECTION

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2010

ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Current Assets:				
Cash and cash equivalents	\$ 479,465	\$ -	\$ 179,840	\$ 659,305
Net tenant accounts receivable	10,174	-	-	10,174
Tenant assistance accounts receivable	20,499	-	-	20,499
Other accounts receivable	8,030	-	-	8,030
Due from related parties	1,908,167	-	-	1,908,167
Prepaid expenses	140,517	-	-	140,517
Total Current Assets	2,566,852	-	179,840	2,746,692
Deposits:				
Tenant security deposits held in trust	197,618	-	-	197,618
Self-Help construction deposits held in trust	4,976	-	-	4,976
Tax and insurance impounds	290,126	-	-	290,126
Replacement reserves	1,948,127	-	-	1,948,127
Other required reserves	928,707	-	-	928,707
Residual receipts reserves	619,005	-	-	619,005
Cash restricted for pension plan	3,969	-	-	3,969
Cash restricted for self-insurance plan	40,090	-	-	40,090
Total Deposits	4,032,618	-	-	4,032,618
Fixed Assets net of Accumulated Depreciation	32,532,343	135,000	794,000	33,461,343
Other Assets:				
Long-term notes receivable	1,133,104	155,000	928,935	2,217,039
Investment in nonconsolidated affiliates	141,461	-	269,800	411,261
Land held for development	3,421,417	-	-	3,421,417
Development costs	5,321,358	-	450,000	5,771,358
Total Other Assets	10,017,340	155,000	1,648,735	11,821,075
Total Assets	\$ 49,149,153	\$ 290,000	\$ 2,622,575	\$ 52,061,728
LIABILITIES AND NET ASSETS (DEFICIT)				
Liabilities:				
Current Liabilities:				
Accounts payable and accrued liabilities	\$ 1,118,299	\$ -	\$ -	\$ 1,118,299
Accrued interest payable	112,443	-	-	112,443
Due to related parties	107	-	-	107
Current portion mortgages and notes payable	4,556,022	-	-	4,556,022
Deferred revenue	33,838	-	-	33,838
Total Current Liabilities	5,820,709	-	-	5,820,709
Long-Term Liabilities:				
Tenant security deposits	197,618	-	-	197,618
Self-Help construction deposits	4,976	-	-	4,976
Accrued interest payable	1,613,112	-	-	1,613,112
Mortgages and notes payable	27,283,821	-	-	27,283,821
Grant liens	9,647,400	-	-	9,647,400
Liens convertible to grants	2,552,529	-	-	2,552,529
Total Long-Term Liabilities	41,299,456	-	-	41,299,456
Total Liabilities	47,120,165	-	-	47,120,165
Net Assets (Deficit)	2,028,988	290,000	2,622,575	4,941,563
Total Liabilities and Net Assets (Deficit)	\$ 49,149,153	\$ 290,000	\$ 2,622,575	\$ 52,061,728

See accompanying notes and independent auditor's report.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED OCTOBER 31, 2010

REVENUES	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net tenant rents	\$ 1,879,810	\$ -	\$ -	\$ 1,879,810
Tenant assistance payments	3,253,476	-	-	3,253,476
Other rents	112,707	-	-	112,707
Grant income	301,471	-	286,000	587,471
Interest income	15,791	-	-	15,791
Management fees and reimbursements	267,329	-	-	267,329
Operational revenue	371,236	-	-	371,236
Other revenue	106,541	-	-	106,541
Gain (loss) on sale of development properties	169,802	-	-	169,802
Total Revenues	6,478,163	-	286,000	6,764,163
EXPENSES				
Administrative services	1,523,393	-	-	1,523,393
Utilities	585,856	-	-	585,856
Operating and maintenance:				
Operating accounts	951,986	-	-	951,986
Replacement reserve and residual receipt expenditures	228,670	-	-	228,670
Taxes and insurance	645,310	-	-	645,310
Interest expense	1,368,466	-	-	1,368,466
Amortization and depreciation	1,216,905	-	-	1,216,905
Total Expenses	6,520,586	-	-	6,520,586
Change In Net Assets	(42,423)	-	286,000	243,577
Net Assets (Deficit), Beginning	2,071,411	290,000	2,336,575	4,697,986
Net Assets (Deficit), Ending	<u>\$ 2,028,988</u>	<u>\$ 290,000</u>	<u>\$ 2,622,575</u>	<u>\$ 4,941,563</u>

See accompanying notes and independent auditor's report.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED OCTOBER 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Total Net Assets from Operations	\$ 243,577
Adjustments to Reconcile Changes in Net Asset to Net cash Provided by (Used in) Operating Activities:	
Increase in long-term accrued interest	291,267
Amortization and Depreciation	1,216,905
(Gain) loss on sale of development properties	(169,802)
Decrease (Increase) in:	
Net tenant accounts receivable	(728)
Tenant assistance accounts receivable	18,916
Other accounts receivable	(1,319)
Prepaid expenses	9,300
Increase (Decrease) in:	
Checks issued in excess of deposits	(706)
Accounts payable and accrued liabilities	729,978
Accrued interest payable	26,915
Deferred revenue	(14,678)
Net Cash Provided by (Used in) Operating Activities	<u>2,349,625</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Decrease (Increase) in:	
Tenant deposits held in trust	(8,008)
Tax and insurance impounds	(68,454)
Replacement reserves	174,062
Other reserves	(2,947)
Residual receipts reserves	(74,614)
Cash restricted for pension plan	15,910
Cash restricted for self-insurance plan	(13,902)
Purchase of fixed assets	(3,434,389)
Decrease (Increase) in due from related parties	(338,686)
Increase in long-term notes receivable	(359,835)
Investment in nonconsolidated affiliates	(168,000)
Proceeds on sale of developed lots	725,000
Development costs	1,466,727
Land held for development	430,000
Net Cash Provided by (Used in) Investing Activities	<u>(1,657,136)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from mortgages and notes payable	1,293,053
Increase (Decrease) in due to related parties	(6,365)
Principal payments on mortgages and notes payable	(1,992,812)
Net Cash Provided by (Used in) Financing Activities	<u>(706,124)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(13,635)
Cash and Cash Equivalents, Beginning	<u>672,940</u>
Cash and Cash Equivalents, Ending	<u>\$ 659,305</u>
SUPPLEMENTAL DISCLOSURES	
Amounts Paid for Interest	<u>\$ 1,050,284</u>
Amounts Paid for Income Tax	<u>\$ 2,400</u>
NON CASH INVESTING AND FINANCING ACTIVITIES	
Increase in long-term accrued interest	<u>\$ 291,267</u>

See accompanying notes and independent auditor's report.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2010

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 and 70 of RCHDC, its owned housing projects, controlled housing projects, and related entities. All but one of the controlled housing projects are owned by separate corporations, which share the same board of directors as RCHDC. One of the controlled housing projects is owned by a limited partnership in which both the general partner and the limited partner are 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. Three 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 October 31, 2010. There were no events or transactions either excluded or included that would have a significant effect on the consolidated financial statements.

Nonconsolidated interests in partnerships

RCHDC, through its controlled entities, holds 0.01% general partner interests in four limited partnerships which are accounted for under the equity method of accounting. The four limited partnerships operate seven low income housing projects. RCHDC is not the primary beneficiary, as the limited partners have substantive participating rights as determined under FASB Interpretation 46(R), and therefore the four limited partnerships are not consolidated. However, please see footnote 5 for disclosures regarding potential unanticipated obligations of RCHDC or its consolidated affiliates related to these partnerships. At October 31, 2010, RCHDC's investment in the four limited partnerships was \$411,261, classified as "Investment in nonconsolidated affiliates" in the consolidated balance sheet.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 OCTOBER 31, 2010

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	
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, 2010

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.

Future Implementation of New Accounting Pronouncements

FASB Statement No. 167

The Financial Accounting Standards Board has issued FASB Statement No. 167 to clarify and amend FASB Interpretation No. 46(R) regarding the consolidation of Variable Interest Entities for implementation for reporting periods that begin after November 15, 2009. Pursuant to the discussion above related to Nonconsolidated Interests in Partnerships, the Management of RCHDC has determined that the limited partners of these Limited Partnerships have substantive participating rights such that RCHDC does not consolidate the assets and liabilities of these Limited Partnerships under FIN 46(R).

Based on Management's preliminary analysis, it does not appear that this will change substantially under FASB 167. However, Management will continue to provide disclosures regarding potential unanticipated obligations of RCHDC or its affiliates related to these partnerships as discussed in Footnote 5.

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:

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2010

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

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.

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.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2010

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

Self-Help Construction Trust Fund (Fund 90)

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

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, 2010.

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, 2010, 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 \$2,000,203. 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.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2010

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

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.

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.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2010

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 \$131,500 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 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, 2010

NOTE 2. NOTES RECEIVABLE (Continued)

2. Loans 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, 2010:

	Beginning Balance	Additions	Deductions	Ending Balance
Fixed Assets				
Land and Improvements	\$ 3,830,722	\$ 213,261	\$ -	\$ 4,043,983
Building and Improvements	40,892,096	3,998,957	-	44,891,053
Office Furniture and Equipment	967,119	-	(15,723)	951,396
Other assets	276,585	-	-	276,585
Total Fixed Assets	45,966,522	4,212,218	(15,723)	50,163,017
Accumulated Depreciation	(15,500,492)	(1,216,905)	15,723	(16,701,674)
Total Fixed Assets, Net	<u>\$ 30,466,030</u>	<u>\$ 2,995,313</u>	<u>\$ -</u>	<u>\$ 33,461,343</u>

NOTE 4. LONG-TERM DEBT

Long-term debt consists of the following at October 31, 2010:

MORTGAGES PAYABLE

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. As of October 31, 2010, the balance of this liability is \$698,484.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2010

NOTE 4. LONG-TERM DEBT (Continued)

Development Fund (Fund 21)

Redevelopment Agency, City of Ukiah loan to be repaid when primary financing is obtained. This note is unsecured and is non-interest bearing. As of October 31, 2010, the balance of this liability is \$18,000.

Redevelopment Agency, City of Ukiah loan requiring an annual payment of \$500, payable through September 1, 2032. This note is unsecured and is non-interest bearing. As of October 31, 2010, the balance of this liability is \$21,000.

City of Ukiah loan originally due on December 31, 1999, including simple interest at 3%. This note is unsecured. This note has been extended by the city until called. As of October 31, 2010, the balance of this liability is \$115,200.

Redevelopment Agency, City of Ukiah loan originally due on September 26, 1999, including simple interest at 3%. This note is unsecured. This note has been extended by the city until called. As of October 31, 2010, the balance of this liability is \$36,500.

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 until March 1, 2012, and the interest rate has been increased to 6.25% from March 1, 2011 to March 1, 2012. This note is secured. As of October 31, 2010, the balance of this liability is \$490,728.

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. As of October 31, 2010, the balance of this liability is \$131,500.

Savings Bank of Mendocino County loan for land development costs associated with the Lake Mendocino Drive Self-Help property in the maximum amount of \$1,500,000 at 7% interest. Interest is payable on the loan monthly in arrears and all unpaid principal and interest was originally due on or before July 21, 2009. This note is secured. This note has been extended once and is in the process of being extended again. As of October 31, 2010, the balance of this liability is \$1,162,000.

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, 2011. As of October 31, 2010, the balance of this liability is \$800,000.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2010

NOTE 4. LONG-TERM DEBT (Continued)

Savings Bank of Mendocino County - \$1,829,520 promissory note secured by property at Brush Street originally due October 1, 2007. Interest is fixed at 5.75% and is payable monthly. \$484,935 was paid down during the fiscal year ended October 31, 2008 from the \$500,000 Neighbor Works loan. This note has been extended to December 30, 2011. As of October 31, 2010, the balance of this liability is \$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 January 8, 2012. This note is secured. As of October 31, 2010, the balance of this liability is \$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, 2012. As of October 31, 2010, the balance of this liability is \$100,000.

California Department of Housing & Community Development- note through the Joe Serna, Jr. grant program dated October 21, 2009. As of October 31, 2010, the balance of this liability is \$330,727.

Redevelopment Agency, City of Ukiah loan dated April 20, 2010. The note is unsecured. Payments of principal must be made from residual receipts as required by the Department under the terms of the Regulatory Agreement. As of October 31, 2010, the balance of this liability is \$15,000.

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. As of October 31, 2010, the balance of this liability is \$1,412,295.

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. As of October 31, 2010, the balance of this liability is \$1,163,378.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2010

NOTE 4. LONG-TERM DEBT (Continued)

Cypress Ridge is also financed with a note from the City of Fort Bragg for \$225,000 that accrues interest at 3 %. Principal and Interest shall be due and payable on or before January 20, 2065. This note is secured. As of October 31, 2010, the balance of this liability is \$225,000.

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. As of October 31, 2010, the balance of this liability is \$901,321.

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. As of October 31, 2010, the balance of this liability is \$1,031,744.

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. As of October 31, 2010, the balance of this liability is \$181,150.

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. As of October 31, 2010, the balance of this liability is \$240,037.

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. As of October 31, 2010, the balance of this liability is \$238,636.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2010

NOTE 4. LONG-TERM DEBT (Continued)

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. As of October 31, 2010, the balance of this liability is \$729,175.

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.. As of October 31, 2010, the balance of this liability is \$178,928.

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. As of October 31, 2010, the balance of this liability is \$1,176,572.

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. As of October 31, 2010, the balance of this liability is \$547,450.

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. As of October 31, 2010, the balance of this liability is \$681,978.

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, 2011. The note is secured by a First Deed of Trust. This note is secured. As of October 31, 2010, the balance of this liability is \$799,747.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2010

NOTE 4. LONG-TERM DEBT (Continued)

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. As of October 31, 2010, the balance of this liability is \$3,751,101.

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. As of October 31, 2010, the balance of this liability is \$3,442,000.

Controlled Entities

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. Annual payments of principle and interest shall be made from “residual receipts”. No payments shall be required from this promissory note in the absence of “residual receipts”. This note is secured. As of October 31, 2010, the balance of this liability is \$100,000.

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. As of October 31, 2010, the balance of this liability is \$1,276,061.

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. As of October 31, 2010, the balance of this liability is \$758,824.

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. As of October 31, 2010, the balance of this liability is \$1,375,092.

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. As of October 31, 2010, the balance of this liability is \$1,430,194.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2010

NOTE 4. LONG-TERM DEBT (Continued)

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. As of October 31, 2010, the balance of this liability is \$145,739.

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. As of October 31, 2010, the balance of this liability is \$202,720.

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. As of October 31, 2010, the balance of this liability is \$1,701,979.

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. As of October 31, 2010, the balance of this liability is \$72,248.

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. 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. As of October 31, 2010, the balance of this liability is \$2,122,750.

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 I, Inc. so that Pine Gardens I, Inc. could acquire the limited partnership interest in the Partnership from Beech Villa Ltd. effective August 29, 2008. As of October 31, 2010, the balance of this liability is \$200,000.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2010

NOTE 4. LONG-TERM DEBT (Continued)

GRANT LIENS

Although these items are recognized in the financial statements as long-term debt, these grant liens, in all probability, will never become due and payable.

Owned Projects

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. As of October 31, 2010, the balance of this liability is \$20,000.

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. As of October 31, 2010, the balance of this liability is \$2,988,000.

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. As of October 31, 2010, the balance of this liability is \$292,500.

Controlled Projects

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. As of October 31, 2010, the balance of this liability is \$68,800.

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. As of October 31, 2010, the balance of this liability is \$1,104,100.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2010

NOTE 4. LONG-TERM DEBT (Continued)

GRANT LIENS (Continued)

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. As of October 31, 2010, the balance of this liability is \$60,000.

Gibson Court is also financed with a Capital Advance Mortgage note of \$752,400 from HUD, under Section 811. The mortgage note bears no interest and repayment is not required as long as the housing remains available for qualifying persons with disabilities. The note matures May 1, 2041 and may not be prepaid without prior written approval of HUD. Provided that the Project remains available for disabled persons and remains in compliance with the regulatory agreement through its maturity, the note is not required to be repaid. This note is secured. As of October 31, 2010, the balance of this liability is \$752,400.

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. As of October 31, 2010, the balance of this liability is \$706,000.

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. As of October 31, 2010, the balance of this liability is \$47,500.

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. As of October 31, 2010, the balance of this liability is \$1,733,300.

Washington Court is financed with a \$55,000 Affordable Housing Program Direct Subsidy. The Agreement requires no payments of principal or interest as long as the Project remains affordable for households with income at or below 50% of average median income. 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. As of October 31, 2010, the balance of this liability is \$55,000.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2010

NOTE 4. LONG-TERM DEBT (Continued)

GRANT LIENS (Continued)

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. As October 31, 2010, the balance of this liability is \$924,000.

Lenore Street is financed with a \$60,000 Affordable Housing Program Direct Subsidy. The agreement requires no payments of principal or interest as long as the Project remains affordable for households with income at or below 50% of average median income. 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. As of October 31, 2010, the balance of this liability is \$60,000.

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. As of October 31, 2010, the balance of this liability is \$835,800.

LIENS CONVERTIBLE TO GRANTS

These items are included in long-term debt, but convert to income as requirements are met.

Development Fund (Fund 21)

California Department of Housing and Community Development secured by deed of trust on the Lake Mendocino Drive property. The note is in the amount of \$560,000 originally due November 30, 2009. RCHDC pays \$18,667 toward principal per lot sold. The note converts to a grant upon sale of lots to families. As of October 31, 2010, the balance of this liability is \$149,333.

California Department of Housing and Community Development, CalHOME predevelopment loans secured by deed of trust on the Lake Mendocino Drive property. The notes are in the amount of \$427,500 at 0% interest originally due February 25, 2005. The notes have been extended to lot sale dates. The notes convert to grants upon sale of lots to families. As of October 31, 2010, the balance of this liability is \$31,000.

Housing Assistance Council – notes in the aggregated amount of \$1,493,647 on Lake Mendocino Drive Self-Help property. Notes are forgiven incrementally as individual lots are sold. The notes are secured by the properties. As of October 31, 2010, the balance of these liabilities is \$1,418,647.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 OCTOBER 31, 2010

NOTE 4. LONG-TERM DEBT (Continued)

LIENS CONVERTIBLE TO GRANTS (Continued)

Redevelopment Agency, County of Mendocino - \$100,000 note dated January 20, 2009. Note bears interest at 1% until forgiven incrementally as individual lots are sold. This note is secured by the property. As of October 31, 2010, the balance of this liability is \$50,000.

County of Mendocino - loan sponsored by Community Development Commission in the amount of \$496,000 which is forgiven incrementally as individual lots are sold. This note is secured by the property. As of October 31, 2010, the balance of this liability is \$308,037.

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. As of October 31, 2010, the balance of this liability is \$595,512.

Changes in long-term debt for the year ended October 31, 2010 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Funds	\$ 8,466,784	\$ 15,000	\$ 175,531	\$ 8,306,253
Owned	20,093,682	368,023	460,693	20,001,012
Controlled	16,073,065	910,030	1,250,588	15,732,507
Totals	<u>\$ 44,633,531</u>	<u>\$ 1,293,053</u>	<u>\$ 1,886,812</u>	<u>\$ 44,039,772</u>

Aggregate maturities required on the mortgages payable at October 31, 2010 are as follows:

For the Year Ended October 31:	Funds	Owned	Controlled	Total
2011	\$ 3,937,994	\$ 488,276	\$ 129,752	\$ 4,556,022
2012	600,972	520,056	145,799	1,266,827
2013	10,764	554,541	182,189	747,494
2014	11,222	591,916	132,017	735,155
2015	11,700	630,929	153,301	795,930
Thereafter	3,733,601	17,215,294	14,989,449	35,938,344
Total	<u>\$ 8,306,253</u>	<u>\$ 20,001,012</u>	<u>\$ 15,732,507</u>	<u>\$ 44,039,772</u>

Long term debt summarized by type at October 31, 2010 is as follows:

Mortgages and notes payable	\$ 31,839,843
Grant liens	9,647,400
Liens convertible to grants	<u>2,552,529</u>
Total	<u>\$ 44,039,772</u>

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 OCTOBER 31, 2010

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.

<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.

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

- A) Pine Gardens I, Inc. has the following ongoing obligations related to Clara Court, L.P.:
- i) During the construction phase of the apartments, Pine Gardens I, Inc. has guaranteed a September 30, 2011 completion date, is required to pay any development deficits and shall cause rental achievement to occur by June 1, 2012. Management expects a September 30, 2011 completion date to be extended by the limited partner.
 - ii) Pine Gardens I, Inc. is required to establish a separated Operating Reserve Account in the amount of \$105,000 for the project. This is expected to be paid out of presently committed funding sources for the project.
 - iii) Pine Gardens I, Inc. has pledged to lend the limited partnership any operating loans to fund operating deficits incurred by the partnership during the period commencing at rental achievement and expiring 60 months thereafter.
 - 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 capital contributions for the portion of the Deferred Development Fee that remains unpaid by the thirteenth anniversary of the completion of the construction of the project.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2010

NOTE 5. COMMITMENTS AND CONTINGENCIES (Continued)

- 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.
- B) 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.
- C) 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, 2010

NOTE 5. COMMITMENTS AND CONTINGENCIES (Continued)

D) 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 year ended October 31, 2010, RCHDC reported the following gains and losses from the sale of development properties:

	Lakewood
Selling Price	\$ 725,000
Cost of Development Properties	
Land held for development	69,655
Development cost	485,543
Gain (Loss) on Sale of Development Properties	\$ 169,802

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 OCTOBER 31, 2010

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

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.

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 year ended October 31, 2010, 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>Amount Received</u>	<u>Unrestricted</u>	<u>Permanently Restricted</u>
Expendable	\$ 74,500	\$ 74,500	\$ -
Expendable	50,500	50,500	-
Total Neighborworks America Grants Received	<u>\$ 125,000</u>	<u>\$ 125,000</u>	<u>\$ -</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	\$ 794,000
Long-term notes receivable	285,000
Investment in affiliates	269,800
Development costs	<u>200,000</u>
Total Neighborworks America Permanently Restricted Assets	<u>\$ 1,548,800</u>

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2010

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. When necessary RCHDC makes monthly contribution to the account to cover expected expenses. RCHDC deposited contributions in the amount of \$27,029 to the account during the year ended October 31, 2010.

NOTE 10. DEFINED CONTRIBUTION PENSION PLAN

RCHDC has a 403(b) defined contribution pension plan covering all employees working 20 hours per week or more. RCHDC may make a discretionary matching contribution to the plan each year, not to exceed 5% of the contributing 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 fiscal year. Total contributions accumulated for the year ended October 31, 2010 to be deposited to the plan amounted to \$15,663.

NOTE 11. TRANSFER OF NET ASSETS

During the year, RCHDC transferred unrestricted net assets from Fund 20 to Fund 10 in the amount of \$9,007, 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.

During the year, RCHDC transferred permanently restricted net assets from Fund 21 to Fund 10 in the amount of \$194,800. The permanently restricted net assets originated from Neighborworks America capital grants designated for the Clara Court LP apartment project development costs received in prior years. Fund 10 transferred \$128,000 to Pine Gardens I, Inc. as a capital contribution. Pine Gardens I, Inc. used the \$128,000 as their general partner capital contribution to Clara Court LP. Fund 10 transferred \$66,800 to Pine Gardens II, Inc. as a capital contribution. Pine Gardens II, Inc. loaned the \$66,800 to Clara Court LP. Clara Court LP was deconsolidated during the year ended October 31, 2010 as of the date the new limited partner bought out RCHDC.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2010

NOTE 12. RESTATEMENT

Beginning net assets were restated as follows by restriction:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets (Deficit), October 31, 2009	\$ 2,683,483	\$ 290,000	\$ 1,920,075	\$ 4,893,558
Correct NeighborWorks capital grant reported as unrestricted	(50,000)	-	50,000	-
Correct capital grants on self-help notes receivable reported as unrestricted	(316,500)	-	316,500	-
Correct for HCD Admin grant reported as debt	37,941	-	-	37,941
Write off of self-help family overruns	(209,000)	-	-	(209,000)
Correct NeighborWorks capital grant from liability to equity	-	-	50,000	50,000
Correct for forgiven capitalized accrued interest reported as revenue	(42,803)	-	-	(42,803)
To correct for acquisition of remaining partnership interest in Redwood Court Property	(31,710)	-	-	(31,710)
Net Restatement	<u>(612,072)</u>	<u>-</u>	<u>416,500</u>	<u>(195,572)</u>
Net Assets (Deficit), November 1, 2009	<u>\$ 2,071,411</u>	<u>\$ 290,000</u>	<u>\$ 2,336,575</u>	<u>\$ 4,697,986</u>

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, 2009	\$ 5,253,669	\$ (670,416)	\$ 641,035	\$ (330,730)	\$ 4,893,558
Correct for HCD Admin grant reported as debt	37,941	-	-	-	37,941
Correct for HCD Admin grant to Fund 21 from RCP	100,000	-	(100,000)	-	-
Write off of self-help family overruns	(209,000)	-	-	-	(209,000)
Correct NeighborWorks capital grant from Clara Court LP to Fund 21	144,800	-	(144,800)	-	-
Correct NeighborWorks capital grant from liability to equity	50,000	-	-	-	50,000
Correct for forgiven capitalized accrued interest reported as revenue	-	-	(42,803)	-	(42,803)
To correct for acquisition of remaining partnership interest in Redwood Court Property	-	-	(252,810)	221,100	(31,710)
Net Restatement	<u>123,741</u>	<u>-</u>	<u>(540,413)</u>	<u>221,100</u>	<u>(195,572)</u>
Net Assets (Deficit), November 1, 2009	<u>\$ 5,377,410</u>	<u>\$ (670,416)</u>	<u>\$ 100,622</u>	<u>\$ (109,630)</u>	<u>\$ 4,697,986</u>

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 OCTOBER 31, 2010

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, 2010 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 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.

Permanently restricted net assets at October 31, 2010 consisted of the following:

NeighborWorks America	\$ 1,548,800
HOME	221,275
Cowell Foundation	250,000
Loans to Self-Help Families	<u>602,500</u>
Total Permanently Restricted Net Assets	<u><u>\$ 2,622,575</u></u>

NOTE 14. BUSINESS CONDITIONS – OAK HILL APARTMENTS

During the year ended October 31, 2010, Oak Hill generated positive cash flow. The Project funded \$10,478 of the replacement reserve during the year ended October 31, 2010, but the replacement reserve remains underfunded by \$114,715. At October 31, 2010, the Project owes RCHDC a total of \$410,489. Therefore, the continued viability of this Project is dependent upon successful future operations. In this regard, RCHDC is seeking a waiver of the farm worker requirement for occupancy within this Project from the appropriate regulatory agencies that exercise authority over the Project. However, it should be noted that as turnover continues to be higher than originally anticipated, the fact that the replacement reserves are underfunded is likely to further impact negative cash flow from operations attributable to the inability to draw upon the replacement reserves for unusual or unexpected turnover costs.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2010

NOTE 15. SUBSEQUENT EVENTS

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date, require disclosure in the accompanying notes. Management evaluated the activity of RCHDC through April 25, 2011 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

SUPPLEMENTAL INFORMATION SECTION

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
OCTOBER 31, 2010

ASSETS	Funds	Owned Projects	Controlled Entities	Consolidating Entries	Totals
Current Assets:					
Cash and cash equivalents	\$ 62,873	\$ 439,896	\$ 156,536	\$ -	\$ 659,305
Net tenant accounts receivable	-	4,045	6,129	-	10,174
Tenant assistance accounts receivable	-	16,216	4,283	-	20,499
Other accounts receivable	2,815	2,860	2,355	-	8,030
Due from funds	-	144,809	103	(144,912)	-
Due from owned projects	508,886	-	-	(508,886)	-
Due from controlled entities	281,010	-	-	(281,010)	-
Due from related parties	1,667,608	-	240,559	-	1,908,167
Prepaid expenses	33,757	67,691	39,069	-	140,517
Total Current Assets	2,556,949	675,517	449,034	(934,808)	2,746,692
Deposits:					
Tenant deposits held in trust	7,093	102,665	87,860	-	197,618
Amounts held for Self-Help Families	4,976	-	-	-	4,976
Tax and insurance impounds	-	162,679	127,447	-	290,126
Replacement reserves	-	1,334,254	613,873	-	1,948,127
Other required reserves	-	836,195	92,512	-	928,707
Residual receipts reserves	-	164,641	454,364	-	619,005
Cash restricted for pension plan	3,969	-	-	-	3,969
Cash restricted for self-insurance plan	40,090	-	-	-	40,090
Total Deposits	56,128	2,600,434	1,376,056	-	4,032,618
Fixed Assets net of Accumulated Depreciation	828,296	17,554,635	15,078,412	-	33,461,343
Other Assets:					
Long-term notes receivable	2,217,039	-	-	-	2,217,039
Investment in consolidated affiliates	128,000	-	109,630	(237,630)	-
Investment in nonconsolidated affiliates	168,000	-	243,261	-	411,261
Land held for development	3,421,417	-	-	-	3,421,417
Development costs	5,746,381	24,977	-	-	5,771,358
Total Other Assets	11,680,837	24,977	352,891	(237,630)	11,821,075
Total Assets	\$ 15,122,210	\$ 20,855,563	\$ 17,256,393	\$ (1,172,438)	\$ 52,061,728
LIABILITIES AND NET ASSETS (DEFICIT)					
Liabilities:					
Current Liabilities:					
Accounts payable and accrued liabilities	\$ 290,062	\$ 52,510	\$ 775,727	\$ -	\$ 1,118,299
Accrued interest payable	2,595	78,766	31,082	-	112,443
Due to funds	-	508,886	281,010	(789,896)	-
Due to owned properties	144,809	-	-	(144,809)	-
Due to controlled properties	103	-	-	(103)	-
Due to related parties	107	-	-	-	107
Current portion mortgages and notes payable	3,937,994	488,276	129,752	-	4,556,022
Deferred revenue	22,519	5,520	5,799	-	33,838
Total Current Liabilities	4,398,189	1,133,958	1,223,370	(934,808)	5,820,709
Long-Term Liabilities:					
Tenant deposits held in trust	7,093	102,665	87,860	-	197,618
Amounts held for Self-Help Families	4,976	-	-	-	4,976
Accrued interest payable	387,323	866,408	359,381	-	1,613,112
Mortgages and notes payable	1,815,730	16,212,236	9,255,855	-	27,283,821
Grant liens	-	3,300,500	6,346,900	-	9,647,400
Liens convertible to grants	2,552,529	-	-	-	2,552,529
Total Long-Term Liabilities	4,767,651	20,481,809	16,049,996	-	41,299,456
Total Liabilities	9,165,840	21,615,767	17,273,366	(934,808)	47,120,165
Net Assets (Deficit):					
Unrestricted	3,902,795	(1,170,204)	(465,973)	(237,630)	2,028,988
Temporarily restricted	155,000	-	135,000	-	290,000
Permanently restricted	1,898,575	410,000	314,000	-	2,622,575
Total Net Assets (Deficit)	5,956,370	(760,204)	(16,973)	(237,630)	4,941,563
Total Liabilities and Net Assets (Deficit)	\$ 15,122,210	\$ 20,855,563	\$ 17,256,393	\$ (1,172,438)	\$ 52,061,728

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED OCTOBER 31, 2010

REVENUES	Funds	Owned Projects	Controlled Entities	Consolidating Entries	Total
Net tenant rents	\$ -	\$ 992,369	\$ 887,441	\$ -	\$ 1,879,810
Tenant assistance payments	-	2,130,924	1,122,552	-	3,253,476
Other rents	112,707	-	-	-	112,707
Grant income	587,471	-	-	-	587,471
Interest income	141	12,670	2,980	-	15,791
Management fees and reimbursements	670,425	-	62,832	(465,928)	267,329
Operational revenue	345,315	17,552	8,369	-	371,236
Other revenue	37,560	1,468	67,513	-	106,541
Gain (loss) on sale of development properties	169,802	-	-	-	169,802
Total Revenues	1,923,421	3,154,983	2,151,687	(465,928)	6,764,163
EXPENSES					
Administrative services	881,335	353,588	288,470	-	1,523,393
Management Fees	-	237,544	191,304	(428,848)	-
Bookkeeping and Accounting Fees	-	16,380	20,700	(37,080)	-
Utilities	27,005	266,474	292,377	-	585,856
Operating and maintenance:					
Operating accounts	131,248	552,325	268,413	-	951,986
Replacement reserve and residual receipts accounts	-	85,360	143,310	-	228,670
Taxes and insurance	213,034	232,835	199,441	-	645,310
Interest expense	51,156	821,342	495,968	-	1,368,466
Amortization and depreciation	40,683	678,923	497,299	-	1,216,905
Total Expenses	1,344,461	3,244,771	2,397,282	(465,928)	6,520,586
Change In Net Assets	578,960	(89,788)	(245,595)	-	243,577
Contributions Received	-	-	128,000	(128,000)	-
Net Assets (Deficit), Beginning	5,377,410	(670,416)	100,622	(109,630)	4,697,986
Net Assets (Deficit), Ending	<u>\$ 5,956,370</u>	<u>\$ (760,204)</u>	<u>\$ (16,973)</u>	<u>\$ (237,630)</u>	<u>\$ 4,941,563</u>

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATING SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED OCTOBER 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	Funds	Owned Projects	Controlled Entities	Consolidating Entries	Totals
Change in Total Net Assets from Operations	\$ 578,960	\$ (89,788)	\$ (245,595)	\$ -	\$ 243,577
Adjustments to Reconcile Changes in Net Asset to Net cash Provided by (Used in) Operating Activities:					
Increase in long-term accrued interest	-	186,691	104,576	-	291,267
Amortization and Depreciation	40,683	678,923	497,299	-	1,216,905
(Gain) loss on sale of development properties	(169,802)	-	-	-	(169,802)
Decrease (Increase) in:					
Net tenant accounts receivable	-	2,937	(3,665)	-	(728)
Tenant assistance accounts receivable	-	(3,049)	21,965	-	18,916
Other accounts receivable	346	(656)	(1,009)	-	(1,319)
Due from funds	-	(144,444)	1,470	142,974	-
Due from owned properties	11,050	-	-	(11,050)	-
Due from controlled properties	353,982	-	-	(353,982)	-
Prepaid expenses	(17,902)	17,413	9,789	-	9,300
Increase (Decrease) in:					
Checks issued in excess of deposits	-	-	(706)	-	(706)
Accounts payable and accrued liabilities	49,418	(15,617)	696,177	-	729,978
Accrued interest payable	(34)	27,682	(733)	-	26,915
Due to funds	-	(11,050)	(353,982)	365,032	-
Due to Owned Properties	144,444	-	-	(144,444)	-
Due to controlled properties	(1,470)	-	-	1,470	-
Deferred revenue	182	(6,973)	(7,887)	-	(14,678)
Net Cash Provided by (Used in) Operating Activities	<u>989,857</u>	<u>642,069</u>	<u>717,699</u>	<u>-</u>	<u>2,349,625</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Decrease (Increase) in:					
Tenant deposits held in trust	(6,018)	(1,990)	-	-	(8,008)
Tax and insurance impounds	-	(38,186)	(30,268)	-	(68,454)
Replacement reserve	-	108,975	65,087	-	174,062
Other reserves	-	(2,947)	-	-	(2,947)
Residual receipts reserve	-	(42,037)	(32,577)	-	(74,614)
Cash restricted for pension plan	15,910	-	-	-	15,910
Cash restricted for self-insurance plan	(13,902)	-	-	-	(13,902)
Purchase of fixed assets	-	(496,514)	(2,937,875)	-	(3,434,389)
Decrease (Increase) in due from related parties	(275,854)	-	(62,832)	-	(338,686)
Increase in long-term notes receivable	(359,835)	-	-	-	(359,835)
Investment in consolidated affiliates	(128,000)	-	-	128,000	-
Investment in nonconsolidated affiliates	(168,000)	-	-	-	(168,000)
Proceeds on sale of developed lots	725,000	-	-	-	725,000
Development costs	(747,617)	-	2,214,344	-	1,466,727
Land held for development	-	-	430,000	-	430,000
Contribution received	-	-	128,000	(128,000)	-
Net Cash Provided by (Used in) Investing Activities	<u>(958,316)</u>	<u>(472,699)</u>	<u>(226,121)</u>	<u>-</u>	<u>(1,657,136)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from mortgages and notes payable	15,000	368,023	910,030	-	1,293,053
Increase (Decrease) in due to related parties	107	-	(6,472)	-	(6,365)
Principal payments on mortgages and notes payable	(175,531)	(460,693)	(1,356,588)	-	(1,992,812)
Net Cash Provided by (Used in) Financing Activities	<u>(160,424)</u>	<u>(92,670)</u>	<u>(453,030)</u>	<u>-</u>	<u>(706,124)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(128,883)	76,700	38,548	-	(13,635)
Cash and Cash Equivalents, Beginning	191,756	363,196	117,988	-	672,940
Cash and Cash Equivalents, Ending	<u>\$ 62,873</u>	<u>\$ 439,896</u>	<u>\$ 156,536</u>	<u>\$ -</u>	<u>\$ 659,305</u>
SUPPLEMENTAL DISCLOSURES					
Amounts Paid for Interest	<u>\$ 51,190</u>	<u>\$ 606,969</u>	<u>\$ 392,125</u>	<u>\$ -</u>	<u>\$ 1,050,284</u>
Amounts Paid for Income Tax	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,400</u>	<u>\$ -</u>	<u>\$ 2,400</u>
NON CASH INVESTING AND FINANCING ACTIVITIES					
Increase in long-term accrued interest	<u>\$ -</u>	<u>\$ 186,691</u>	<u>\$ 104,576</u>	<u>\$ -</u>	<u>\$ 291,267</u>

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATING FUND SCHEDULE OF FINANCIAL POSITION
FOR THE YEAR ENDED OCTOBER 31, 2010

ASSETS	Funds						Consolidating Entries	Totals
	10	20	21	22	23	70		
Current Assets:								
Cash and cash equivalents	\$ 738	\$ 4,721	\$ 26,832	\$ 30,582	\$ -	\$ -	\$ -	\$ 62,873
Other accounts receivable	-	2,641	-	164	-	10	-	2,815
Due from fund 10	-	300	-	-	-	-	(300)	-
Due from Fund 20	30,265	-	973,550	558,310	-	-	(1,562,125)	-
Due from Fund 21	-	1,367	-	-	-	-	(1,367)	-
Due from Fund 22	-	569	-	195,964	-	-	(196,533)	-
Due from Fund 23	-	5,345	-	-	-	-	(5,345)	-
Due from Fund 70	-	6,651	-	496,017	-	-	(502,668)	-
Due from owned projects	20,000	102,110	378,162	8,614	-	-	-	508,886
Due from controlled entities	53,630	120,658	82,611	24,111	-	-	-	281,010
Due from related parties	-	26,905	1,631,695	9,008	-	-	-	1,667,608
Prepaid expenses	-	10,973	1,041	8,901	-	12,842	-	33,757
Total Current Assets	104,633	282,240	3,093,891	1,331,671	-	12,852	(2,268,338)	2,556,949
Deposits:								
Tenant deposits held in trust	7,093	-	-	-	-	-	-	7,093
Amounts held for Self-Help Families	-	-	-	-	-	4,976	-	4,976
Cash restricted for pension plan	3,969	-	-	-	-	-	-	3,969
Cash restricted for self-insurance plan	40,090	-	-	-	-	-	-	40,090
Total Deposits	51,152	-	-	-	-	4,976	-	56,128
Fixed Assets net of Accumulated Depreciation	828,296	-	-	-	-	-	-	828,296
Other Assets:								
Long-term notes receivable	716,898	-	1,500,091	-	-	50	-	2,217,039
Investment in consolidated affiliates	128,000	-	-	-	-	-	-	128,000
Investment in nonconsolidated affiliates	168,000	-	-	-	-	-	-	168,000
Land held for development	-	-	3,421,417	-	-	-	-	3,421,417
Development costs	-	-	5,746,381	-	-	-	-	5,746,381
Total Other Assets	1,012,898	-	10,667,889	-	-	50	-	11,680,837
Total Assets	\$ 1,996,979	\$ 282,240	\$ 13,761,780	\$ 1,331,671	\$ -	\$ 12,902	\$ 4,976	\$ 15,122,210
LIABILITIES AND NET ASSETS (DEFICIT)								
Liabilities:								
Current Liabilities:								
Accounts payable and accrued liabilities	\$ 43,759	\$ 172,923	\$ 44,858	\$ 23,384	\$ 547	\$ 4,591	\$ -	\$ 290,062
Accrued interest payable	-	2,595	-	-	-	-	-	2,595
Due to fund 20	300	-	1,367	5,345	569	6,651	(14,232)	-
Due to Fund 21	-	973,550	-	-	-	-	(973,550)	-
Due to Fund 22	-	558,310	-	-	195,964	496,017	(1,250,291)	-
Due to owned properties	-	137,280	7,477	52	-	-	-	144,809
Due to controlled entities	-	-	-	103	-	-	-	103
Due to related parties	-	-	-	107	-	-	-	107
Current portion mortgages and notes payable	9,409	-	3,928,585	-	-	-	-	3,937,994
Deferred revenue	2,337	182	20,000	-	-	-	-	22,519
Total Current Liabilities	55,805	1,875,105	4,002,287	28,991	197,080	507,259	(2,268,338)	4,398,189
Long-Term Liabilities:								
Tenant deposits held in trust	7,093	-	-	-	-	-	-	7,093
Amounts held for Self-Help Families	-	-	-	-	-	4,976	-	4,976
Accrued interest payable	-	-	387,323	-	-	-	-	387,323
Mortgages and notes payable	689,075	-	1,126,655	-	-	-	-	1,815,730
Grant liens	-	-	-	-	-	-	-	-
Liens convertible to grants	-	-	2,552,529	-	-	-	-	2,552,529
Total Long-Term Liabilities	696,168	-	4,066,507	-	-	4,976	-	4,767,651
Total Liabilities	751,973	1,875,105	8,068,794	28,991	197,080	507,259	(2,268,338)	9,165,840
Net Assets (Deficit):								
Unrestricted	1,050,206	(1,592,865)	3,834,211	1,302,680	(197,080)	(494,357)	-	3,902,795
Temporarily restricted	-	-	155,000	-	-	-	-	155,000
Permanently restricted	194,800	-	1,703,775	-	-	-	-	1,898,575
Total Net Assets (Deficit)	1,245,006	(1,592,865)	5,692,986	1,302,680	(197,080)	(494,357)	-	5,956,370
Total Liabilities and Net Assets (Deficit)	\$ 1,996,979	\$ 282,240	\$ 13,761,780	\$ 1,331,671	\$ -	\$ 12,902	\$ 4,976	\$ 15,122,210

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATING FUND SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED OCTOBER 31, 2010

	Funds						Consolidating Entries	Total
	10	20	21	22	23	70		
REVENUES								
Other rents	\$ -	\$ 112,707	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 112,707
Grant income	-	135,000	344,731	-	-	107,740	-	587,471
Interest income	-	136	5	-	-	-	-	141
Management fees and reimbursements	-	42,804	-	627,621	-	-	-	670,425
Operational revenue	-	82,269	262,000	(500)	1,540	6	-	345,315
Other revenue	-	1,767	35,793	-	-	-	-	37,560
Gain (loss) on sale of development properties	-	-	169,802	-	-	-	-	169,802
Total Revenues	-	374,683	812,331	627,121	1,540	107,746	-	1,923,421
EXPENSES								
Administrative services	-	473,184	153,340	206,705	9,484	38,622	-	881,335
Utilities	-	27,005	-	-	-	-	-	27,005
Operating and maintenance:								
Operating accounts	2,223	44,085	800	49	1,790	82,301	-	131,248
Taxes and insurance	(310)	95,642	20,694	39,922	2,387	54,699	-	213,034
Interest expense	-	30,740	20,416	-	-	-	-	51,156
Amortization and depreciation	40,683	-	-	-	-	-	-	40,683
Total Expenses	42,596	670,656	195,250	246,676	13,661	175,622	-	1,344,461
Change In Net Assets	(42,596)	(295,973)	617,081	380,445	(12,121)	(67,876)	-	578,960
Transfer of Net Assets	203,807	(9,007)	(194,800)	-	-	-	-	-
Net Assets (Deficit), Beginning	1,083,795	(1,287,885)	5,270,705	922,235	(184,959)	(426,481)	-	5,377,410
Net Assets (Deficit), Ending	<u>\$ 1,245,006</u>	<u>\$ (1,592,865)</u>	<u>\$ 5,692,986</u>	<u>\$ 1,302,680</u>	<u>\$ (197,080)</u>	<u>\$ (494,357)</u>	<u>\$ -</u>	<u>\$ 5,956,370</u>

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATING FUND SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED OCTOBER 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	Funds						Consolidating	Total	
	10	20	21	22	23	70			90
Change in Total Net Assets from Operations	\$ (42,596)	\$ (295,973)	\$ 617,081	\$ 380,445	\$ (12,121)	\$ (67,876)	\$ -	\$ -	\$ 578,960
Adjustments to Reconcile Changes in Net Asset to Net cash Provided by (Used in) Operating Activities:									
Amortization and Depreciation	40,683	-	-	-	-	-	-	-	40,683
Gain (loss) on sale of development properties	-	-	(169,802)	-	-	-	-	-	(169,802)
Decrease (Increase) in:									
Other accounts receivable	-	498	22	(164)	-	(10)	-	-	346
Due from Fund 20	(30,265)	-	(973,550)	(558,310)	-	-	-	1,562,125	-
Due from fund 21	110,314	5,464	-	816,650	-	-	-	(932,428)	-
Due from Fund 22	-	(119)	-	(195,964)	-	-	-	196,083	-
Due from Fund 23	-	2,197	1,050,197	-	-	-	-	(1,052,394)	-
Due from Fund 60	-	(3,441)	-	(496,017)	-	-	-	499,458	-
Due from owned properties	10,000	(57,294)	49,514	8,830	-	-	-	-	11,050
Due from controlled properties	10,031	(27,611)	369,345	2,217	-	-	-	-	353,982
Prepaid expenses	-	110	158	(6,236)	102	(12,036)	-	-	(17,902)
Increase (Decrease) in:									
Accounts payable and accrued liabilities	(1,987)	43,349	15,882	7,281	(3,664)	(11,443)	-	-	49,418
Accrued interest payable	-	(34)	-	-	-	-	-	-	(34)
Due to Fund 20	-	-	(5,464)	(2,197)	119	3,441	-	4,101	-
Due to Fund 21	-	(415,118)	-	-	(180,400)	(408,093)	-	1,003,611	-
Due to Fund 22	-	558,310	-	-	195,964	496,017	-	(1,250,291)	-
Due to Owned Properties	-	136,915	7,477	52	-	-	-	-	144,444
Due to controlled properties	-	(1,573)	-	103	-	-	-	-	(1,470)
Deferred revenue	-	182	-	-	-	-	-	-	182
Net Cash Provided by (Used in) Operating Activities	96,180	(23,873)	960,860	(43,310)	-	-	-	-	989,857
CASH FLOWS FROM INVESTING ACTIVITIES									
Decrease (Increase) in:									
Tenant Deposits Held in Trust	(6,018)	-	-	-	-	-	-	-	(6,018)
Cash restricted for pension plan	15,910	-	-	-	-	-	-	-	15,910
Cash restricted for self-insurance plan	(13,902)	-	-	-	-	-	-	-	(13,902)
Decrease (Increase) in due from related parties	-	26,102	(301,340)	(616)	-	-	-	-	(275,854)
Increase in long-term notes receivable	-	-	(359,835)	-	-	-	-	-	(359,835)
Investment in consolidated affiliates	(128,000)	-	-	-	-	-	-	-	(128,000)
Investment in nonconsolidated affiliates	(168,000)	-	-	-	-	-	-	-	(168,000)
Proceeds on sale of developed lots	-	-	725,000	-	-	-	-	-	725,000
Development costs	-	-	(747,617)	-	-	-	-	-	(747,617)
Transfer of net assets	203,807	(9,007)	(194,800)	-	-	-	-	-	-
Net Cash Provided by (Used in) Investing Activities	(96,203)	17,095	(878,592)	(616)	-	-	-	-	(958,316)
CASH FLOWS FROM FINANCING ACTIVITIES									
Proceeds from mortgages and notes payable	-	-	15,000	-	-	-	-	-	15,000
Increase (Decrease) in due to related parties	-	-	-	107	-	-	-	-	107
Principal payments on mortgages and notes payable	(9,007)	-	(166,524)	-	-	-	-	-	(175,531)
Net Cash Provided by (Used in) Financing Activities	(9,007)	-	(151,524)	107	-	-	-	-	(160,424)
Net Increase (Decrease) in Cash and Cash Equivalents	(9,030)	(6,778)	(69,256)	(43,819)	-	-	-	-	(128,883)
Cash and Cash Equivalents, Beginning	9,768	11,499	96,088	74,401	-	-	-	-	191,756
Cash and Cash Equivalents, Ending	\$ 738	\$ 4,721	\$ 26,832	\$ 30,582	\$ -	\$ -	\$ -	\$ -	\$ 62,873
SUPPLEMENTAL DISCLOSURES									
Amounts Paid for Interest	\$ -	\$ 30,774	\$ 20,416	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 51,190
Amounts Paid for Income Tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
NON CASH INVESTING AND FINANCING ACTIVITIES									
Increase in long-term accrued interest	\$ -	\$ -	\$ 129,252	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 129,252

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
OCTOBER 31, 2010

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	\$ -	\$ 3,751,101	\$ -	\$ 3,751,101
Rural Rental Housing Loans (Sections 515 and 521)	10.415	-	3,309,162	1,774,227	5,083,389
Rural Self-Help Housing Technical Assistance (Section 523)	10.420	80,005	-	-	80,005
Rural Rental Assistance Payments	10.427	-	207,859	-	207,859
Community Facilities Loans and Grants	10.766	698,484	-	-	698,484
Total U.S. Department of Agriculture		<u>778,489</u>	<u>7,268,122</u>	<u>1,774,227</u>	<u>9,820,838</u>
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	-	-	145,739	145,739
Supportive Housing For The Elderly (Section 202)	14.157	-	3,854,617	8,280,447	12,135,064
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	-	1,832,436	1,064,206	2,896,642
Home Investment Partnerships Program (HOME) (Pass-Through California Department of Housing & Community Development)	14.239	308,037	4,760,885	3,084,294	8,153,216
Self Help Homeownership Opportunity Program	14.247	330,000	-	-	330,000
Total U.S. Department of Housing and Urban Development		<u>638,037</u>	<u>10,447,938</u>	<u>14,431,186</u>	<u>25,517,161</u>
NeighborWorks America:					
Expendable Grants	21.000	125,000	-	-	125,000
Capital Loan	21.000	500,000	-	-	500,000
Total U.S. NeighborWorks America		<u>625,000</u>	<u>-</u>	<u>-</u>	<u>625,000</u>
Total Federal Awards Expended		<u>\$ 2,041,526</u>	<u>\$ 17,716,060</u>	<u>\$ 16,205,413</u>	<u>\$ 35,962,999</u>

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, 2010, and have issued our report thereon dated April 25, 2011. 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 as a basis for designing 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2010-1.

We noted certain matters that we reported to management of the Organization in a separate letter dated April 25, 2011.

The Organization's response to the finding 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 board of directors, the audit committee, others within the entity, the United States Department of Agriculture, Rural Development, and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Robertson & Associates, CPAs

Lakeport, California
April 25, 2011

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL IMPACT ON 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 Rural Communities Housing Development Corporation (the Organization)'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended October 31, 2010. 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 item 2010-1 in the accompanying schedule of findings and questioned costs, the Organization did not comply with requirements regarding funding of Reserves for Replacements that are applicable to its Rural Rental Housing Loan and Home Investment Partnerships Program. Compliance with such requirements is necessary, in our opinion, for the Organization to comply with the requirements applicable to that program.

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 could have a direct and material effect on each of its major federal programs for the year ended October 31, 2010

Internal Control over Compliance

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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2010-1. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Organization's responses 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 management, the board of directors, the audit committee, others within the entity, the United States Department of Agriculture, Rural Development, and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.



Lakeport, California
April 25, 2011

AUDITOR'S FINDINGS AND QUESTIONED COSTS

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OCTOBER 31, 2010

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> No	
Control deficiency identified not considered to be material weaknesses?	_____ Yes	_____ <u>X</u> None	
Noncompliance material to financial statements noted?	_____ Yes	_____ <u>X</u> No	

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> No	
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)
21.000	NeighborWorks America Cluster
14.247	Self Help Homeownership Opportunity Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000		
Auditee qualified as low-risk auditee?	_____ Yes	_____ <u>X</u> No	

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CURRENT YEAR FINDINGS
FOR THE YEAR ENDED OCTOBER 31, 2010

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
2010-1 Failure to Fund the Replacement Reserve – CFDA Numbers 10.415 / 14.239

Condition

The Project failed to set aside the required Reserves for Replacements for the year ended October 31, 2010.

Effect

The Replacement Reserve Bank Account was underfunded by \$114,715 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 the required Reserves for Replacements during the first three years of operations ended October 31, 2010.

Criteria

The Regulatory Agreements from Rural Development, HCD – HOME and HCD – Joe Serna that affect 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 fully funded with \$114,715 as soon as possible. As a possible alternative, the Project Owner may negotiate written waivers from Rural Development and HCD – HOME.

Project Response and Action Plan

Although Oak Hill did not generate sufficient cash flow from operations to fund all of its required annual contributions to its Replacement Reserve, it did have positive cash flow from operations in an amount adequate to repay some of its accumulated liabilities from prior years and partially fund the Replacement Reserve Account. Therefore RCHDC was not required to contribute any additional funds enabling Oak Hill to meet its obligations for the fiscal year ended October 31, 2010.

However, due to the project's inability to meet all of its obligations in previous years and its inability to properly fund its Replacement Reserves during the fiscal year ended October 31, 2010, Management is presently attempting to work with RD, HCD, and Joe Serna to obtain a waiver of the farmworker requirement for a portion of the units which come available for rent at this project, thereby making units available to a significantly larger market of potential tenants. If such a waiver can be approved, Management believes that this will reduce the amount and term of vacancies within the project, thereby improving the operating cash flow of the project.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CURRENT YEAR FINDINGS
FOR THE YEAR ENDED OCTOBER 31, 2010

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

2010-1 Failure to Fund the Replacement Reserve – CFDA Numbers 10.415 / 14.239
(Continued)

Additionally, Management continues to seek approved rent increases from RD so that the project can improve the cash flow from operations to fully fund both current Replacement Reserve requirements as well as prior period Replacement Reserves that continue to be underfunded.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CORRECTIVE ACTION PLAN
OCTOBER 31, 2010

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 YEAR ENDED OCTOBER 31, 2010

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Explanation, If Not Implemented</u>
2009-1 North Shore Villas: 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. Property Management should timely rent vacant units and fully fund the Replacement Reserve Bank Account.	Implemented	
2009-2 Oak Hill Apartments: 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. 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.	Repeated	See recommendation 2010-1.