

RURAL COMMUNITIES HOUSING DEVELOPMENT
CORPORATION AND AFFILIATES

Annual Financial Report

October 31, 2022

TIDWELL
 **group**

Rural Communities Housing Development Corporation
Mission and Leadership
October 31, 2022

Rural Communities Housing Development (RCHDC) is a California not-for-profit corporation which was incorporated in November 1975. RCHDC's mission is to provide decent, affordable housing to low and moderate income persons. The mission is accomplished through its development and management of multi-family housing for the elderly, persons with special needs, and families, and their mutual self-help housing program.

Board of Directors

<u>Name</u>	<u>Date Seated</u>	<u>Term Expires</u>
Aaron Lefebvre, Chairperson	October 30, 2012	November 2025
Richard Henderson, Vice Chairperson	November 27, 2018	November 2022
Charlotte Watkins, Secretary	November 27, 2010	January 2024
Gary Mirata, Treasurer	August 31, 2009	November 2025
Mike Pallesen	March 26, 2019	March 2023
Amanda Pardini	March 29, 2016	January 2024
Fu Lin Chang	July 26, 2022	July 2026

ADMINISTRATION

Ryan LaRue - Chief Executive Officer
Jennifer Hofstetter - Chief Financial Officer

ADDRESS OF CORPORATE OFFICE

499 Leslie Street
Ukiah, California 95482

Rural Communities Housing Development Corporation
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Rural Communities Housing Development Corporation

We have audited the accompanying consolidated statement of financial position of Rural Communities Housing Development Corporation and Affiliates (the Corporation) as of October 31, 2022, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Corporation as of October 31, 2022, and the consolidated results of their operations and changes in net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated April 28, 2023, on our consideration of the Corporation'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* in considering the Corporation's internal control over financial reporting and compliance.

Tidwell Group, LLC

Columbus, Ohio
April 28, 2023

Taxpayer Identification Number:
27-1490692

Lead Auditor: Patty Azallion, CPA

Rural Communities Housing Development Corporation
Consolidated Statement of Financial Position
October 31, 2022

Assets

	Without Donor Restrictions	With Donor Restrictions	Totals
Current Assets:			
Cash	\$ 4,916,348	\$ 47,359	\$ 4,963,707
Tenant accounts receivable	270,677	-	270,677
Tenant assistance accounts receivable	114,964	-	114,964
Other accounts receivable	219,270	-	219,270
Due from related parties	1,352,790	-	1,352,790
Prepaid expenses	209,297	-	209,297
Total Current Assets	7,083,346	47,359	7,130,705
Deposits:			
Tenant security deposits held in trust	346,306	-	346,306
Tax and insurance impounds	287,886	-	287,886
Replacement reserves	5,040,964	-	5,040,964
Other required reserves	975,312	-	975,312
Residual receipts reserves	1,538,435	-	1,538,435
Cash restricted for self-insurance plan	16,890	-	16,890
Total Deposits	8,205,793	-	8,205,793
Fixed Assets - Net	35,081,175	10,953,499	46,034,674
Other Assets:			
Long-term notes receivable	2,436,339	669,522	3,105,861
Developer notes receivable	309,837	-	309,837
Advances and investments in nonconsolidated affiliates	846,109	916,800	1,762,909
Land held for development	848,854	180,989	1,029,843
Development costs	2,182,642	209,202	2,391,844
Total Other Assets	6,623,781	1,976,513	8,600,294
Total Assets	\$ 56,994,095	\$ 12,977,371	\$ 69,971,466

See Notes to the Consolidated Financial Statements.

Rural Communities Housing Development Corporation
Consolidated Statement of Financial Position - continued
October 31, 2022

Liabilities and Net Assets

	Without Donor Restrictions	With Donor Restrictions	Totals
Current Liabilities:			
Accounts payable and accrued liabilities	\$ 1,608,944	\$ -	\$ 1,608,944
Residual receipts liability	1,340,541	-	1,340,541
Accrued interest payable	1,702,140	-	1,702,140
Current portion of mortgages and notes payable	1,777,978	-	1,777,978
Deferred revenue	29,807	-	29,807
Total Current Liabilities	6,459,410	-	6,459,410
Long-Term Liabilities:			
Tenant security deposits	350,214	-	350,214
Accrued interest payable	6,229,349	-	6,229,349
Mortgages and notes payable - net	49,692,773	-	49,692,773
Less: unamortized debt issuance costs	(877,380)	-	(877,380)
Total Long-Term Liabilities	55,394,956	-	55,394,956
Total Liabilities	61,854,366	-	61,854,366
Net Assets	(4,860,271)	12,977,371	8,117,100
Total Liabilities and Net Assets	\$ 56,994,095	\$ 12,977,371	\$ 69,971,466

See Notes to the Consolidated Financial Statements.

Rural Communities Housing Development Corporation
Consolidated Statement of Cash Flows
Year ended October 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Totals
Revenues			
Net tenant rents	\$ 4,203,010	\$ -	\$ 4,203,010
Tenant assistance payments	3,835,641	-	3,835,641
Other rents	82,735	-	82,735
Grant income	285,038	-	285,038
Management fees and reimbursements	370,735	-	370,735
Operational revenue	1,691,847	-	1,691,847
Other revenue	1,314,828	-	1,314,828
Unrealized gain on land development	955	-	955
Total Revenues	11,784,789	-	11,784,789
Expenses			
Administrative services	3,851,769	-	3,851,769
Utilities	1,116,006	-	1,116,006
Operating and maintenance	2,283,106	-	2,283,106
Taxes and insurance	1,363,886	-	1,363,886
Financial	1,716,441	-	1,716,441
Total Expenses	10,331,208	-	10,331,208
Change in Net Assets from Operations	1,453,581	-	1,453,581
Non-Operating Revenue / (Expenses)			
Interest income	133,966	-	133,966
Replacement reserve and residual receipt expenditures	(94,705)	-	(94,705)
Depreciation	(1,937,300)	-	(1,937,300)
Total Non-Operating Revenue / (Expenses)	(1,898,039)	-	(1,898,039)
Change in Net Assets	(444,458)	-	(444,458)
Net Assets at the Beginning of the Year	(2,753,170)	13,604,243	10,851,073
Elimination of controlled investments, previously related party	(188,087)	-	(188,087)
Capital contribution to controlled entity	(156,717)	-	(156,717)
Transfer in of net assets of controlled entities	(1,317,839)	-	(1,317,839)
Release of restrictions on permanently restricted debt	-	(626,872)	(626,872)
Net Assets at the End of the Year	\$ (4,860,271)	\$ 12,977,371	\$ 8,117,100

See Notes to the Consolidated Financial Statements.

Rural Communities Housing Development Corporation
Consolidated Statement of Cash Flows
Year ended October 31, 2022

Cash Flows From Operating Activities

Change in total net assets from operations \$ (444,458)

**Adjustments to Reconcile Changes in Net Assets to
Net Cash From Operating Activities**

Net present value of notes receivable (23,921)
Increase in long-term accrued interest - net 1,905,191
Depreciation 1,937,300
Amortization of debt issuance costs 47,385
Unrealized gain on land development (955)
Release of grant liens from sale of real estate (626,872)

Decrease (Increase) in:

Net tenant accounts receivable (73,089)
Tenant assistance accounts receivable (85,127)
Other accounts receivable (207,485)
Prepaid expenses 27,143

Increase (Decrease) in:

Accounts payable and accrued liabilities 162,089
Residual receipts liability 115,125
Accrued interest payable (1,324,381)
Deferred revenue (2,536)

Net Cash From Operating Activities

1,405,409

Cash Flows From Investing Activities

Purchase of fixed assets (324,517)
Decrease in due from related parties 108,091
Purchase of investment in consolidated entity (156,717)
Increase in long-term notes receivable (266,335)
Developer notes receivable 9,903
Cash from merger of controlled entities 1,865,187
Proceeds on sale of developed lots 53,000
Land held for development and development costs (573,000)

Net Cash From Investing Activities

715,612

See Notes to the Consolidated Financial Statements.

Rural Communities Housing Development Corporation
 Consolidated Statement of Cash Flows - continued
 Year ended October 31, 2022

Cash Flows From Financing Activities	
Proceeds from mortgage and note payable	\$ 3,525,397
Principal payments on mortgages and notes payable	(3,629,816)
Net Cash From Financing Activities	<u>(104,419)</u>
 Net Change in Cash	 2,016,602
 Cash and Restricted Cash - Beginning of Year	 <u>11,152,898</u>
 Cash and Restricted Cash - End of Year	 <u>\$ 13,169,500</u>
 Supplemental Disclosures	
Amounts paid for interest	<u>\$ 1,088,246</u>
 Non-Cash Investing Activities	
Capitalized interest	<u>\$ 40,412</u>

See Notes to the Consolidated Financial Statements.

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements
Year ended October 31, 2022

1. Organization and Nature of Operations

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

2. Significant Accounting Policies

Principles of Consolidation

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

These consolidated financial statements include Funds 20, 21, 22, 70 and 90 of RCHDC, its owned housing projects, controlled housing projects, and investments in partnerships. As summarized in Note 15, during 2022, RCHDC obtained control of three limited partnerships when it acquired the limited partnership interests. Additionally, the Board of Directors became the board for a nonprofit that owns three affordable housing projects. Also, RCHDC obtained control of one affordable housing project when the RCHDC board of directors are the same for the general and limited partner.

Seven of the controlled housing projects are owned by a limited partnership in which both the general partner and the limited partner are not-for-profit corporations, which share the same board of directors as RCHDC. The controlled entities, other than housing projects, are generally corporations or limited liability companies, which share the same board of directors as RCHDC. 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 these financial statements.

Financial data used for the consolidation of CC Seabreeze, LLC and CC Seagull Villa, LLC is as of October 31, 2022. There were no events or transactions either excluded or included that would have a significant effect on the consolidated financial statements.

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2022

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP). Net assets, support and revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes in net assets are classified and reported as follows:

Without Donor Restrictions: Net assets available for use in general operations and not subject to donor restrictions.

With Donor Restrictions: Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenues are reported as increases in net assets without donor restrictions, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Expirations of restrictions on net assets are reported as reclassifications between applicable net asset classes.

Revenue Recognition

Tenant rental income: Rental income is recognized as rents become due. Rental payments received in advance are deferred until earned. All leases between the Corporation and its affiliates are typically one year or less.

Grant income: Grants and contributions are recognized when the donor makes a promise to the Corporation that is, in substance, unconditional. Grants and contributions received are recorded as with or without donor restrictions, depending on the existence and nature of any donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified as net assets without restrictions.

Contracted services and development fees: The Corporation accounts for contracted services and development fees under the accrual method of accounting when the criteria for recognition have been met for the services to be provided. The performance obligations for development fees are related to certain activities during the predevelopment period and their various performance obligations during the construction period of development. Development fee revenue under the contract is recognized ratably over the construction period using inputs to determine the amount of revenue earned.

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2022

Summary of Funds, Owned, and Controlled Entities

RCHDC Funds

Administrative Fund
Gibson Court 4 Apartments (1)
Development Fund
Property Management
Home Ownership Fund
Self-Help Construction Trust Fund

Fund Number

Fund 20

Fund 21
Fund 22
Fund 70
Fund 90

RCHDC Owned Housing Projects

Cypress Ridge
Holden Street
McCloud Motel Apartments
Oak Hill Apartments

Controlled Entities

Pine Gardens I, Inc.
CC Seabreeze, LLC (4)

CC Seagull Villa, LLC (5)
Autumn Village, LLC
Pine Gardens I, LLC
Orchard River Associates, L.P. (3)

Pine Gardens Holding 3 LLC

PineGI Highlands Village, LLC
PineGI Lakeview Apartments, LLC
PineGI Jack Simpson, LLC
PineGI North Shore, LLC
Redwood Court Property Corporation
Pine Meadows Corporation
Pine Gardens I, LLC
Redwood Court Property, A California Limited Partnership (2)
Bevins Court Housing Corporation
Gibson Court Housing Corporation
North Pine Street Senior Housing Corporation
Red Bluff Senior Housing Corporation
Siskiyou Gardens Inc.
Washington Court Senior Housing Corporation
Willits Senior Housing Corporation
Humboldt Bay Housing Development Corporation

Project Operations Included

Totem Village Apartments
Seabreeze Apartments
Seagull Villa Apartments

Orchard Manor Apartments
Orchard Village Apartments
River Gardens Apartments
Creekside Village
Sunshine Manor
Walnut Village
Highlands Village
Lakeview Apartments
Jack Simpson School View Apartments
North Shore Villas

Redwood Court Apartments
Bevins Court Apartments
Gibson Court Apartments*
North Pine Street Apartments
Oak Park Manor
Siskiyou Garden Apartments
Washington Court Apartments
Lenore Street Senior Housing
Arcata Gardens
Juniper Apartments
Windsong Duplexes

(1) 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.

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

(3) Limited Partnership in which Pine Gardens I, Inc. is the general partner and Pine Gardens Corp. is the limited partner.

(4) Limited Partnership in which CC Seabreeze, LLC is the general partner and Clearlake Housing Corporation is the limited partner.

(5) Limited Partnership in which CC Seagull Villa, LLC is the general partner and Clearlake Housing Corporation is the limited partner.

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2022

Description of Funds

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

Administrative Fund (Fund 20)

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

Development Fund (Fund 21)

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

Property Management Fund (Fund 22)

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

Home Ownership Fund (Fund 70)

Fund 70 administers the USDA and HCD Technical Assistance grant funds as well as NeighborWorks grant funds to support the Self-Help families. Therefore, all costs associated with the oversight and management of the Self-Help program are charged to Fund 70. Additionally, costs associated with the Home Ownership Center and related revenue for classes and grant income are charged to Fund 70. During 2022, management ceased the operations of this fund indefinitely.

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2022

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.

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, 2022.

Cash and restricted cash as of October 31, 2022 consisted of the following:

Cash	\$ 4,963,707
Restricted deposits and funded reserves	8,205,793
Total cash and restricted cash shown on the	<hr/>
Consolidated Statement of Cash Flows	\$ 13,169,500

Noninterest-bearing accounts will be added to any of a depositor's other accounts in the applicable ownership category, and the aggregate balance insured is up to at least the Standard Maximum Deposit Insurance amount of \$250,000 per depositor, at each separately chartered bank. As of October 31, 2022, RCHDC's Funds, Owned Projects and Controlled Entities held cash in banks in excess of amounts insured by the FDIC approximated \$4,350,000 for funds, \$-0- for owned and \$1,011,000 for controlled entities.

Accounts Receivable and Bad Debt Policy

Receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method. Included in administrative expenses are bad debts of \$170,422 for the year ended October 31, 2022.

Tenant Deposits Held in Trust

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

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2022

Fixed Assets

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

Reserves

The low-income housing projects obtain federal, state and local funding which require certain reserves to be maintained in separate federally insured bank accounts. These accounts include tax and insurance impounds, replacement reserves, other required reserves and residual receipts reserves.

Grants

RCHDC receives various grants to assist with the development of specific projects and programs. Capital grants and expendable grants are received from NeighborWorks America, a sponsoring organization of RCHDC. These funds are used to assist with the development of affordable housing projects, improvements in management and planning of new programs and projects for the benefit of low-income families and seniors. The NeighborWorks America grant receipts and related expenditures are reported in Note 8 to these consolidated financial statements.

Grant Liens

RCHDC regularly receives funds from various governmental or non-profit agencies in the form of non-interest bearing mortgages secured by deeds of trust related to the development of affordable housing, subject to regulatory agreements or other restrictions that require the properties to remain affordable to low-income residents for extended periods of time. RCHDC records such advances as net assets with donor restrictions. 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 released from restrictions.

Notes Receivable

As described in Note 3, RCHDC obtains funding from various external and internal sources to loan funds to individuals that qualify for self-help programs to purchase homes. The notes receivable agreements are subordinate to the first mortgage and other third party financing that has priority. The payment terms vary from 1) fully forgiven providing the buyers continue to reside in the homes for 20 to 30 years, 2) deferred for 5 or more years with payment of principal and interest 3) deferred until the first mortgage is paid in full or 4) fully amortized. At October 31, 2022, RCHDC has a reserve for forgivable loans of \$561,215 and net present value reserve of \$603,832.

RCHDC has advanced funds to Pine Gardens II, Inc. (PGII) totaling \$969,200 as of October 31, 2022. PGII then loaned the funds to unconsolidated real estate partnerships. The advance is unsecured and bears no interest.

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2022

Additionally, as described in Note 3, RCHDC has provided seller financing in the sale of four owned projects. RCHDC also enters into developer notes receivable. RCHDC considers the notes receivable related to low-income housing to be performing in accordance with the low-income housing tax credit programs for real estate investment. These notes receivable will be repaid either from the cash flow of the properties or the ultimate outcome and valuation of the transfer of the property at year 15 which is used to settle any unpaid amounts due. These notes receivable are due based on the cash flow of the tax credit projects and, therefore, are not considered past due based on the RCHDC's policy and terms for these advances.

During 2022, RCHDC entered into a note receivable with Siskiyou Crossroads Associates LP for \$717,497 which bears no interest. The note receivable is due fifteen years from the date of completion. As summarized in Note 5, RCHDC entered into a note payable from Federal Home Loan Bank under the Affordable Housing Program through Tri County Bank with the same terms.

As of October 31, 2022, no allowance for uncollectible accounts is deemed necessary, other than the reserves on the self-help notes receivable noted previously.

Development Costs and Revenue Recognition

Development costs are recorded on a site-specific basis. Development costs include all expenditures necessary to complete a project including but not limited to the purchase price of land, escrow and closing costs, environmental remediation, predevelopment costs, legal and other consulting fees, architecture and engineering costs, entitlement costs, governmental fees and permits, construction and supervision costs, and interest costs during the development process. Development costs are capitalized as construction in process until the completed project is placed in service, at which time construction in process is reclassified to land and buildings subject to depreciation, for reporting purposes. Development costs are capitalized and proportionately allocated at sale. Developments which experience lot sales in more than one fiscal period reflect lower development costs when the first lots are sold and higher development costs as the last lots are sold.

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

RCHDC reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the estimated proceeds from the eventual disposition of the real estate or recent appraisals. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. During the year ended October 31, 2022, a net impairment gain on land held for development in the amount of \$955 was recorded. RCHDC may in the future sell certain real estate for less than the carrying value or determine that future events would indicate additional impairment. As of October 31, 2022, land and development costs had impairment reserves totaling \$558,527 and \$691,196, respectively.

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2022

Nonconsolidated Interests in Partnerships

RCHDC, through its controlled entities, holds 0.01% general partner interests in eight limited partnerships which operate eight low income housing projects. Based on various provisions in the Partnership Agreements, the general partner does not have exclusive control, therefore, the general partner interests are accounted for under the cost method of accounting. Additionally, see Note 7 for disclosures regarding potential unanticipated obligations of RCHDC or its consolidated affiliates related to these partnerships. As of October 31, 2022, RCHDC's investment in the six limited partnerships totaled \$568,963 and is included in "Advances and investment in nonconsolidated affiliates" on the accompanying Consolidated Statement of Financial Position.

Unamortized Debt Issuance Costs

In accordance with GAAP, the debt issuance costs are presented as an offset of the related debt instruments within the liabilities section of the Consolidated Statement of Financial Position. Loan costs totaling \$1,175,685 for mortgage financing are being amortized using the straight-line method over the term of the mortgage and amortization expense is included in Financial expense on the accompanying Consolidated Statement of Activities and Changes in Net Assets.

GAAP requires that the effective interest method be used to amortize debt costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective interest method. Amortization for the year ended October 31, 2022 totaled \$47,385. As of October 31, 2022, accumulated amortization totaled \$338,377. The estimated amount of amortization expense for each of the next five years is \$47,385.

Income Taxes

RCHDC and the majority of its controlled corporations are exempt from Federal and California income taxes as they are recognized by the Internal Revenues Service as not-for-profit corporations exempt under Federal and California Code Sections 501(c)(3) and 23701(d), respectively. Redwood Court Properties, A California Limited Partnership; CC Seabreeze, LLC and CC Seagull Villa, LLC, Pine Gardens Holding 3, LLC, Autumn Village, LLC, PineGI Highlands Village, LLC, PineGI Lakeview Apartments, LLC, Pine GI Jack Simpson, LLC, Pine Meadows Corporation, Orr Creek Commons, LLC, Willow Terrace LLC, Pine Gardens I, LLC and RCHDC Misty Village 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. Humboldt Bay Housing Development Corporation is a not-for-profit corporation exempt under Federal and California Code Sections 501(c)(3) and 23701(d), respectively

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

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2022

Fair Value of Financial Instruments

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

Fair Value Measurements of Assets and Liabilities

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

Advertising Costs

Advertising costs are expensed as incurred.

Use of Estimates

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. Notes Receivable

Fund 21 - Self Help Notes Receivable

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

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

Rural Communities Housing Development Corporation
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Year ended October 31, 2022

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. Loans with 30 year terms were made to homeowners. The loans bear no interest during the first ten years and accrue 3% simple interest thereafter for the next twenty years. Monthly payments of principal and interest commence in the sixteenth year such that all outstanding principal and accrued interest is fully amortized by the end of the 30 year term. The loans are secured by trust deeds on the properties.
4. Loans with 30 year terms were made to homeowners. The terms of these loans give RCHDC a share in the appreciation of the affordable housing that they help finance. The loans do not bear interest and require no payments unless the properties subject to the liens are sold prior to their maturity dates. The loans are secured by trust deeds on the properties. RCHDC's share of appreciation is reduced by 5% per year beginning in the eleventh year of each loan such that there shall be no amounts due to RCHDC provided the properties are held for the full 30 year terms of the loans. RCHDC's policy is to provide a valuation allowance equal to the face amount on these notes since the present value of the notes cannot be readily determined.

The following summarizes notes receivable balances from self- help notes receivable as of October 31, 2022:

Seller financed notes receivable	\$ 2,184,758
Accrued interest receivable	362,897
Loan reserve for forgivable notes receivable	(561,215)
Net present value of notes/accrued interest receivable	(603,832)
	\$ 1,382,608

Seller Financed Notes Receivable with Controlled Entities

RCHDC financed non-interest bearing notes receivable for the sale of the following entities which are consolidated in these financial statements. The balances are eliminated in consolidation. The following summarizes notes receivable balances for seller financed notes receivable with controlled entities as of October 31, 2022:

Creeside Village	\$ 1,124,010
Sunshine Village	616,518
Walnut Village	1,823,801
	\$ 3,564,329

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2022

Notes Receivable with Related Parties

The following summarizes notes receivable principal and accrued interest receivable with related parties as of October 31, 2022:

	Principal	Accrued Interest
Note receivable with McCarty Manor Associates LP for \$475,000. The note bears interest at 2.64% compounded annually. Payments of principal and interest are payable in an amount equal to 75% of surplus cash as defined in the promissory note. The entire unpaid balance is due in June 2067. The note is secured by the real estate.	\$ 475,000	\$ 110,453
Note receivable with Orr Creek Commons II Associates LP for \$269,822. The note bears interest at 1.62% per annum, compounding annually, and matures in May 2077. Payment of principal and interest is deferred during the term of the note with any repayments contingent on cash flow as defined in the partnership agreement. The note is secured by a Deed of Trust.	269,822	-
Note receivable with Autumn Village Associates, LP for \$124,623. The note bears interest at 3.36%, compounded annually. The entire unpaid balance is payable in December 2044. The note is secured by the real estate and assignment of rents	124,623	25,858
Note receivable with Siskiyou Crossroads Associates LP for \$717,497. The note bears no interest and is secured by a Deed of Trust. The loan is for 15 years from the date of completion when it is payable in full.	717,497	-
	\$ 1,586,942	\$ 136,311

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2022

4. Fixed Assets

Fixed assets, net of accumulated depreciation, consists of the following as of October 31, 2022:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deductions</u>	<u>Ending Balance</u>
Fixed Assets:					
Land and improvements	\$ 2,873,106	\$ -	\$ 2,876,500	\$ -	\$ 5,749,606
Buildings and improvements	58,375,662	238,774	20,537,999	(33,144)	79,119,291
Office furniture and equipment	1,183,883	47,014	155,601	-	1,386,498
Total Fixed Assets	<u>62,432,651</u>	<u>285,788</u>	<u>23,570,100</u>	<u>(33,144)</u>	<u>86,255,395</u>
Accumulated Depreciation	<u>(30,737,026)</u>	<u>(1,937,300)</u>	<u>(7,579,539)</u>	<u>33,144</u>	<u>(40,220,721)</u>
Fixed Assets - Net	<u>\$ 31,695,625</u>	<u>\$ (1,651,512)</u>	<u>\$ 15,990,561</u>	<u>\$ -</u>	<u>\$ 46,034,674</u>

5. Long-Term Debt

Long-term debt consists of the following as of October 31, 2022:

FUNDS

Administrative Fund (Fund 20)

United States Department of Agriculture, Rural Development Mortgage for \$750,000 at 4.375% annual interest secured by RCHDC's principal offices on Leslie Street in Ukiah. Payments of principal and interest of \$3,315 monthly for forty years, due May 18, 2044. As of October 31, 2022, accrued interest totaled \$2,073.

\$ 568,505

Development Fund (Fund 21)

Redevelopment Agency, City of Ukiah loan to be repaid when primary financing is obtained. This note is unsecured and is non-interest bearing.

18,000

Redevelopment Agency, City of Ukiah loan requiring an annual payment of \$500, payable through September 1, 2032. This note is unsecured and is non-interest bearing.

16,000

City of Ukiah loan originally due on December 31, 1999, including a simple interest at 3%. This note is unsecured. This note has been extended by the City until called. As of October 31, 2022, accrued interest totaled \$104,154.

115,200

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2022

<p>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, 2022, accrued interest totaled \$27,466.</p>	36,500
<p>California Department of Housing and Community Development loan of \$800,000 secured by Self-Help property on North State Street (Contract #03-PDL-34), originally due June 30, 2008, bearing interest at 3%. This note is secured by a deed of trust. The note has been extended to June 30, 2020, as amended. Management is currently working on extending this note. As of October 31, 2022, accrued interest totaled \$436,000.</p>	800,000
<p>Redevelopment Agency, City of Ukiah loan dated April 20, 2010. The note is unsecured and non-interest bearing. Payments of principal must be made from residual receipts as required by the Agency under the terms of the Regulatory Agreement.</p>	15,000
<p>Department of Developmental Services dated March 16, 2022 for \$500,000. the note bears interest at 3% per annum and is due 55 years from the date Collier Avenue obtains a certificat of occupancy. The note is secured by a Deed of Trust. As of October 31, 2022, accrued interest totaled \$7,500.</p>	500,000
<p>Federal Home Loan Bank note payable under the Affordable Housing Program through Tri Counties Bank of \$717,497 dated October 1, 2022. The note in non-interest bearing and is secured by a Deed of Trust. The loan is for 15 years from the date of completion for Siskiyou Crossroads Associates, LP. RCHDC has a note receivable with Siskioyou Crosswoods Associates, LP for the same dollar amount and terms.</p>	<div style="text-align: right;"> <u>717,497</u> </div>
	<div style="text-align: right;"> <u><u>\$ 2,786,702</u></u> </div>

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2022

OWNED PROJECTS

Cypress Ridge is financed with two mortgage notes of \$1,500,000 and \$50,000, totaling \$1,550,000, with the United States Department of Agriculture, Farmers Home Administration (FmHA) under Section 515 of the National Housing Act of 1959. The mortgage note bears interest at the rate of 9.0% per annum, payable in 588 equal monthly installments (49 years) of principal and interest of \$11,780 through November 12, 2029. The mortgage note is secured by the apartment project. In addition, there is an interest subsidy from Rural Development associated with these mortgages that reduces the effective interest rate to 7.0%. The subsidy is not recorded on the Project's books as income or expense and reduces the actual monthly payments by RCHDC to \$9,362. As of October 31, 2022, interest subsidy totaled \$1,226 and accrued interest totaled \$3,410.

\$ 583,836

Cypress Ridge rehabilitation is financed with a note from the City of Fort Bragg for \$225,000 that accrues interest at 3% per annum and requires repayment from residual receipts, as defined by the regulatory agreement. Principal and interest shall be due and payable on or before March 1, 2065. The note is secured by the assignments of rents and revenues. As of October 31, 2022, accrued interest totaled \$90,851.

225,000

Cypress Ridge rehabilitation is also financed with a mortgage note from the California Department of Housing and Community Development (HCD) under the Home Investment Partnership's (HOME) Program, dated July 14, 2004 for a maximum amount of \$983,026 (Contract #03-HOME-0687). The note accrues simple interest of 3% per annum and requires repayment from residual receipts, as defined in the regulatory agreement, commencing the last day of the initial operating year following the completion of rehabilitation. The unpaid principal and accrued interest are due in full on or before the 55th anniversary of the note. The note is secured by a Deed of Trust against the Project. As of October 31, 2022, accrued interest totaled \$385,007.

908,215

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2022

McCloud Motel Apartments rehabilitation is financed with a mortgage payable with Bellwether Enterprise Real Estate Capital, LLC, originally totaling \$700,000 and bearing interest at 4.45 percent per annum. Commencing in May 2018, the Project began to make principal and interest payments of \$3,154 per month. The entire unpaid principal balance and all accrued interest are due and payable in November 2056. The mortgage is secured by the real estate and assignment of rents and securities. As of October 31, 2019, \$613,275 has been drawn on the mortgage. The remaining funds were received in 2018. As of October 31, 2022, accrued interest totaled \$2,472.

666,719

McCloud Motel Apartments rehabilitation is financed with a note payable with the California Department of Housing and Community Development (HCD) under the Home Investment Partnership's (HOME) Program. The HOME loan provided for a maximum borrowing capacity of \$2,000,000. The note accrues simple interest of 3% per annum and requires repayment from residual receipts, as defined in the Regulatory Agreement, commencing the last day of the initial operating year following the completion of rehabilitation. The unpaid principal and accrued interest are due in full in October 2070. This note is secured by the real estate and assignments of rents and security. As of October 31, 2019, \$1,947,890 has been drawn on this note which represents the final funded amount. Accrued interest as of October 31, 2022 totaled \$272,129.

1,947,890

Oak Hill Apartments is financed with three mortgage notes originated on October 28, 2004, in the original amounts of \$2,500,000, \$1,100,000 and \$400,000 with the United States Department of Agriculture, Rural Development under Section 514 Labor Housing of the Title V of the Housing Act of 1949. The mortgage notes bear interest at the rate of 1% per annum and payable in monthly installments of \$13,205 of principal and interest over the over the thirty-three year term of the loans through October 28, 2037. The note is secured by the apartment project. As of October 31, 2022, accrued interest totaled \$1,841.

2,209,264

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
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Oak Hill Apartments was also financed with a note, secured by a deed of trust, originated on June 1, 2005, in the original amount of \$3,442,000 from the Home Investment Partnerships Program (HCD-HOME) through the California Department of Housing and Community Development. The note calls for simple interest at the rate of 3% per annum to accrue on the unpaid principal amount of the note. Payments are required pursuant to the terms of the mortgage note equal to residual receipts after the Developer Fee Note has been paid in full as well as Asset Management Fees not to exceed \$12,000 per year. Thereafter, all unpaid principal and interest are payable at the maturity date for this mortgage note on June 1, 2060. As of October 31, 2020, there were no payments made under the terms of this mortgage note. As of October 31, 2022, accrued interest totaled \$1,810,628.

3,442,000

\$ 9,982,924

CONTROLLED ENTITIES

Bevins Court is financed with a promissory note of \$100,000 from the County of Lake. The note matures in January 2044 and bears interest on unpaid principal of 2%. Interest is deferred from January 15, 2003, and will be repaid in 37 equal installments of \$4,236 beginning January 15, 2008. Annual payments of interest and principal shall be made from "residual receipts" as determined by HUD, or from the Project's own funds. No payments of principal are due before 2016. The promissory note is secured by the apartment project. As of October 31, 2022, accrued interest totaled \$25,718.

\$ 100,000

PineGI North Shore, LLC is financed with a mortgage note in an original amount of \$1,879,000 with Orix Real Estate Capital, LLC, insured by HUD under Section 207 pursuant to Section 223(f). The mortgage note is payable in monthly installments of \$8,753 at an interest rate of 4.38% and a term of 35 years, maturing in March 2049. The mortgage liability of the Company is limited to the underlying value of the real estate collateral pledged plus other funds deposited with the mortgage lender. The mortgage note is secured by the apartment project, assignment of rents and certain escrows as defined in the security agreements. As of October 31, 2022, accrued interest totaled \$4,560.

1,628,407

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2022

Gibson Court is also financed with a promissory note from HOME through the California Department of Housing and Community Development Program. The note is for \$758,824, matures in May 2031 and bears annual interest of 3%. Annual payments of interest and principal shall be made only from "residual receipts" approved by HUD for any particular year. All other terms and conditions of the note default to the provisions of HUD Section 811. The promissory note is secured by the apartment project. As of October 31, 2022, accrued interest totaled \$336,699.

758,824

PineGI Lakeview Apartments is financed with a mortgage note in an original amount of \$2,326,900 with Lancaster Pollard Mortgage Company, insured by HUD under Section 207 pursuant to Section 223(f). The mortgage note is payable in monthly installments of \$10,840 at an interest rate of 4.38% and a term of 35 years, maturing in March 2049. The mortgage liability of the Company is limited to the underlying value of the real estate collateral pledged plus other funds deposited with the mortgage lender. The mortgage note is secured by the apartment project, assignment of rents and certain escrows as defined in the security agreements. As of October 31, 2022, accrued interest totaled \$5,001.

2,020,409

PineGI Jack Simpson, LLC is financed with a mortgage note in an original amount of \$2,110,800 with Orix Real Estate Capital, LLC, insured by HUD under Section 207 pursuant to Section 223(f). The mortgage note is payable in monthly installments of \$9,833 at an interest rate of 4.38% and a term of 35 years, maturing in March 2049. The mortgage liability of the Company is limited to the underlying value of the real estate collateral pledged plus other funds deposited with the mortgage lender. The mortgage note is secured by the apartment project, assignment of rents and certain escrows as defined in the security agreements. As of October 31, 2022, accrued interest totaled \$5,153.

1,829,475

Washington Court is financed with a promissory note from California Department of Housing and Community Development HOME. The original note was for \$202,720, matures in August 2031 and bears annual interest of 3%. Annual payments of interest and principal shall be made only from "residual receipts" approved by HUD for any particular year. No payments shall be required from this promissory note in the absence of residual receipts. The promissory note is secured by the apartment project. All other terms and conditions of the note default to the provisions of HUD Section 202. As of October 31, 2022, accrued interest totaled \$126,275.

202,720

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2022

PineGI Highlands Village is financed with a mortgage note in an original amount of \$2,224,400 with Orix Real Estate Capital, LLC, insured by HUD under Section 207 pursuant to Section 223(f). The mortgage note is payable in monthly installments of \$10,362 at an interest rate of 4.38% and a term of 35 years, maturing in March 2049. The mortgage liability of the Company is limited to the underlying value of the real estate collateral pledged plus other funds deposited with the mortgage lender. The mortgage note is secured by the apartment project, assignment of rents and certain escrows as defined in the security agreements. As of October 31, 2022, accrued interest totaled \$5,398. 1,927,743

Redwood Court is financed with a mortgage note of \$1,854,944, with FmHA under Section 515 of the National Housing Act of 1949. The mortgage note bears interest at the rate of 9.0% per annum, payable in 600 equal monthly installments (50 years) of principal and interest of \$14,072 through July 2, 2037. The mortgage note is secured by the apartment. In addition there is an interest subsidy from RD associated with this mortgage that reduces the effective interest rate to 1%. The subsidy is recorded on the Partnership's books as income and expense and reduces the actual monthly payments by the Partnership to \$4,098. The interest subsidy is deducted monthly by RD directly from the contract payments. For the year ended October 31, 2022, interest subsidy totaled \$100,321. As of October 31, 2021, accrued interest totaled \$1,005. 1,365,044

Redwood Court is also financed with a second mortgage note of \$76,923 with FmHA on January 23, 1992 for the purpose of landscaping and installing playground equipment. The mortgage note bears interest at the rate of 8.25% and is payable in 600 equal monthly installments (50 years) of principal and interest of \$538 through February 1, 2042. The mortgage note is secured by the equipment. As of October 31, 2022, accrued interest totaled \$489. 61,960

Redwood Court is also financed with a mortgage note secured by a Deed of Trust on the apartment project from the California Department of Housing and Community Development HOME Program in the amount of \$2,987,557. The full amount of this loan funded in favor of the Partnership on September 15, 2008. The note bears interest at the rate of 3% per annum, and is repayable in 35 years. As of October 31, 2022 accrued interest totaled \$1,135,894. 2,987,557

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2022

Redwood Court is also financed with a mortgage note secured by a deed of trust from the Fortuna Redevelopment Agency pursuant to a Promissory Note and Loan Agreement in the amount of \$200,000. This Promissory Note bears interest at the rate of 3% per annum, simple interest, and is payable in full together with accrued and unpaid interest at its maturity on September 1, 2063. The terms of this loan include an affordability restriction on the units within the property by which the loan is secured that runs the full 55 year term of the loan. The proceeds from this loan were advanced to Pine Gardens I, Inc. so that Pine Gardens I, Inc. could acquire the limited partnership interest in the Partnership from Beech Villa Ltd. effective August 29, 2008. As of October 31, 2022, accrued interest totaled \$80,071. 200,000

Creekside Village is financed with a mortgage note of \$2,265,000 with Savings Bank of Mendocino County. The mortgage note bears interest at the rate of 5.75% per annum and is being repaid in 360 equal monthly installments of principal and interest of \$13,218 payable, commencing August 1, 2012 through August 1, 2042. This mortgage is secured by the project reserves and rental property. As of October 31, 2022, accrued interest totaled \$10,492. 1,865,154

Communities Housing Development Corporation. The note is non-interest bearing. The entire balance of principal is due and payable on August 16, 2067. The note is secured by a Second Deed of Trust. See Note 3 for seller financed note receivable. 1,124,010

Sunshine Manor is financed with a mortgage note of \$1,087,500 with Savings Bank of Mendocino County. The mortgage note bears interest at the rate of 5.75% per annum and is being repaid in 360 equal monthly installments of principal and interest of \$6,346 payable, commencing August 1, 2012 through August 1, 2042. This mortgage is secured by the project reserves and rental property. As of October 31, 2022, accrued interest totaled \$5,037. 895,524

Sunshine Manor is also financed with a promissory note from Rural Communities Housing Development Corporation. The note is non-interest bearing. The entire balance of principal is due and payable on August 16, 2067. The note is secured by a Second Deed of Trust. See Note 3 for seller financing note receivable. 616,518

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2022

Walnut Village is financed with a mortgage note of \$1,950,000 with Savings Bank of Mendocino County. The mortgage note bears interest at the rate of 5.75% per annum and is being repaid in 360 equal monthly installments of principal and interest of \$11,380 payable, commencing August 1, 2012 through August 1, 2042. This mortgage is secured by the project reserves and rental property. As of October 31, 2022, accrued interest totaled \$9,033. 1,605,777

Walnut Village is also financed with a promissory note from Rural Communities Housing Development Corporation. The note is non-interest bearing. The entire balance of principal is due and payable on August 16, 2067. The note is secured by a Second Deed of Trust. See Note 3 for seller financing note receivable. 1,823,801

Orchard Manor Apartments is financed with a mortgage note with Savings Bank of Mendocino County in the amount of \$700,000. The mortgage note bears interest at 5% with monthly installments of principal and interest of \$4,129 through January 2023 at which time a balloon payment for the outstanding balance and any accrued interest will be due and payable. Principal and interest payments on the mortgage note commenced in February 2020. The mortgage note is secured by the apartment complex. The note and accrued interest were paid in full during the year. -

Orchard Manor Apartments is also financed with a second mortgage note of \$1,934,815 with the United States Department of Agriculture, Farmers Home Administration under Section 515 of the National Housing Act of 1959. The mortgage note bears interest at 6% with monthly installments of principal and interest of \$10,188 through July 2037. The mortgage note is secured by the apartment complex. As of October 31, 2022 accrued interest totaled \$5,306. 1,719,356

Orchard Manor Apartments is also financed with a mortgage note of \$686,800 with NeighborWorks Capital Corporation. The mortgage note bears interest at 5%. Interest only payments through December 2024. Thereafter, monthly principal and interest payments are due in the amount based on a 30-year amortization through maturity in November 2027. The note is secured by the apartment complex and guaranteed by RCHDC. There was no accrued interest at October 31, 2022. 686,800

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
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Orchard Village Apartments is financed with a mortgage note with Savings Bank of Mendocino County in the amount of \$845,500. The mortgage note bears interest at 5% with monthly installments of principal and interest of \$4,987 through January 2023 at which time a ballon payment for the outstanding balance and any accrued interest will be due and payable. The mortgage note is secured by the apartment complex. The mortgage note and interest were paid in full during the year.

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Orchard Village Apartments is also financed with a second mortgage note of \$1,135,741 with the United States Department of Agriculture, Farmers Home Administration under Section 515 of the National Housing Act of 1959. The mortgage note bears interest at 6% with monthly installments of principal and interest of \$10,188 through July 2037. The mortgage note is secured by the apartment complex. As of October 31, 2022 accrued interest totaled \$4,899.

1,040,335

Orchard Village Apartments is also financed with a mortgage note of \$829,200 with NeighborWorks Capital Corporation. The mortgage note bears interest at 5%. Interest only payments through December 2024. Thereafter, monthly principal and interest payments are due in the amount based on a 30-year amortization through maturity in November 2027. The note is secured by the apartment complex and guaranteed by RCHDC. There was no accrued interest at October 31, 2022.

829,200

River Gardens Apartments is financed with a mortgage note with Savings Bank of Mendocino County in the amount of \$808,000. The mortgage note bears interest at 5% with monthly installments of principal and interest of \$4,766 through January 2023 at which time a ballon payment for the outstanding balance and any accrued interest will be due and payable. The mortgage note is secured by the apartment complex. The mortgage note and accrued interest were paid in full during the year.

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River Gardens Apartments is also financed with a second mortgage note of \$1,135,741 with the United States Department of Agriculture, Farmers Home Administration under Section 515 of the National Housing Act of 1959. The mortgage note bears interest at 6% with monthly installments of principal and interest of \$10,188 through July 2037. The mortgage note is secured by the apartment complex. As of October 31, 2022 accrued interest totaled \$4,238.

690,028

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
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River Gardens Apartments is also financed with a mortgage note of \$791,900 with NeighborWorks Capital Corporation. The mortgage note bears interest at 5%. Interest only payments through December 2024. Thereafter, monthly principal and interest payments are due in the amount based on a 30-year amortization through maturity in November 2027. The note is secured by the apartment complex and guaranteed by RCHDC. There was no accrued interest at October 31, 2022.

791,900

Seabreeze Apartments is financed with a mortgage note financed with Tax Exempt Bonds issued by the Housing Authority of the City of Crescent City and purchased by Savings Bank of Medocino County with the amended financed amount of \$1,575,000. The note bears interest at a indexed rate between 5.5% to 7% with monthly principal and interest payments of \$8,949 with the balance due in May 2036. The mortgage note is secured by the apartment complex and assignment of rents. As of October 31, 2022 accrued interest totaled \$5,419.

1,146,220

Seabreeze Apartments is also financed with a mortgage note to RD in monthly installments of \$4,167 at an interest rate of 5.75% and a term of 30 years, maturing in June 2036. As part of the loan agreement, the Project entered into an Interest Credit and Rental Assistance Agreement that reduces the monthly mortgage payment to \$2,296, which effectively lowers the interest rate to 1% over the term of the loan. During the year ended October 31, 2022, interest subsidy payments received totaled \$22,427. The mortgage note is secured by the apartment complex and assignment of rents. As of October 31, 2022 accrued interest totaled \$584.

491,037

Seabreeze Apartments is also financed by a Deed of Trust on the Project from the HCD's Division of Financial Assistance, Rental Housing Development Section, Multifamily Housing Program (MHP) in the amount of \$1,887,000. The full amount of this loan was funded in favor of the Partnership on January 8, 2009. The loan requires interest of 3% per annum, and is repayable in 55 years. During the first 30 years of the loan, 0.42% interest is paid and 2.58% interest is accrued annually. The interest paid for the year ended October 31, 2022 was \$7,925. Thereafter, commencing in the 31st year of the loan, principal plus accrued interest, together with the base rate of 3%, is amortized over the remaining 25 year term of the loan. Accrued and unpaid interest as of October 31, 2022 totaled \$680,640.

1,887,000

Rural Communities Housing Development Corporation
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Totem Villa Apartments is financed with a mortgage note financed with Tax Exempt Bonds issued by the Housing Authority of the City of Crescent City and purchased by Savings Bank of Medocino County with the amended financed amount of \$750,000. The note bears interest at a indexed rate between 5.5% to 7% with monthly principal and interest payments of \$4,225. The mortgage note is secured by the apartment complex and assignment of rents. As of October 31, 2022 accrued interest totaled \$2,558. 540,387

Totem Villa Apartments is also financed with a mortgage note to RD in monthly installments of \$5,266 at an interest rate of 5.75% and a term of 30 years, maturing in June 2036. As part of the loan agreement, the Project entered into an Interest Credit and Rental Assistance Agreement that reduces the monthly mortgage payment to \$2,296, which effectively lowers the interest rate to 1% over the term of the loan. During the year ended October 31, 2022, interest subsidy payments received totaled \$27,892. The mortgage note is secured by the apartment complex and assignment of rents. As of October 31, 2022 accrued interest totaled \$610. 605,568

Totem Villa Apartments is also financed by a Deed of Trust on the Project from the HCD's Division of Financial Assistance, Rental Housing Development Section, Multifamily Housing Program (MHP) in the amount of \$1,419,300. The full amount of this loan was funded in favor of the Partnership on January 8, 2009. The loan requires interest of 3% per annum, and is repayable in 55 years. During the first 30 years of the loan, 0.42% interest is paid and 2.58% interest is accrued annually. The interest paid for the year ended October 31, 2022 was \$5,961. Thereafter, commencing in the 31st year of the loan, principal plus accrued interest, together with the base rate of 3%, is amortized over the remaining 25 year term of the loan. Accrued and unpaid interest as of October 31, 2022 totaled \$517,900. 1,419,300

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Seagull Villa Apartments is financed with a mortgage note to RD in monthly installments of \$4,411 at an interest rate of 6.25% and a term of 50 years, maturing in October 2056. As part of the loan agreement, the Project entered into an Interest Credit and Rental Assistance Agreement that reduces the monthly mortgage payment to \$1,717, which effectively lowers the interest rate to 1% over the term of the loan. During the year ended October 31, 2022, interest subsidy payments received totaled \$31,753. The mortgage note is secured by the apartment complex and assignment of rents. As of October 31, 2022 accrued interest totaled \$1,214. 750,300

Seagull Villa Apartments is financed with a mortgage note financed with Tax Exempt Bonds issued by the Housing Authority of the City of Crescent City and purchased by Savings Bank of Medocino County with the amended financed amount of \$1,255,000. The note bears interest at a indexed rate between 5.5% to 7% with monthly principal and interest payments of \$7,126 with the balance due in May 2036. The mortgage note is secured by the apartment complex and assignment of rents. As of October 31, 2022 accrued interest totaled \$5,308. 911,490

Seagull Villa Apartments is also financed by a Deed of Trust on the Project from the HCD's Division of Financial Assistance, Rental Housing Development Section, Multifamily Housing Program (MHP) in the amount of \$1,673,00. The full amount of this loan was funded in favor of the Partnership on January 8, 2009. The loan requires interest of 3% per annum, and is repayable in 55 years. During the first 30 years of the loan, 0.42% interest is paid and 2.58% interest is accrued annually. The interest paid for the year ended October 31, 2022 was \$7,027. Thereafter, commencing in the 31st year of the loan, principal plus accrued interest, together with the base rate of 3%, is amortized over the remaining 25 year term of the loan. Accrued interest as of October 31, 2022 totaled \$607,120. 1,673,000

Seagull Villa Apartments is also financed from Bank of the West for \$196,000 secured by a Deed of Trust on the Partnership, in conjunction with the Federal Home Loan Bank of San Francisco's Affordable Housing Program. The note which evidences this advance requires no interest and no payments of principal for at least 30 years from the completion of the rehabilitation of the Project, provided the Partnership complies with the covenants required by the Affordable Housing Program. 196,000

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Arcata Gardens is financed from HCD in the amount of \$900,000. The loan requires interest at 3% and is payable at the lower of accrued interest or residual receipts. The current portion of deferred interest payable is under negotiation with HCD as the property has not produced residual receipts in recent years. All unpaid principal and interest will be payable in February 2026. Accrued interest as of October 31, 2022 totaled \$668,635. 900,000

Arcata Gardens is financed from City of Arcata in the amount of \$275,000 for renovation costs. The loan requires interest at 3%, as amended, and is secured by a Deed of Trust and is due in March 2050. Accrued interest as of October 31, 2022 totaled \$42,851. 162,423

Arcata Gardens is also financed from Umpqua Bank in the amount of \$600,000. The note bears interest at 8.25% and is payable in monthly principal and interest payments of \$4,269. All unpaid principal and interest will be payable in February 2027. Accrued interest as of October 31, 2022 totaled \$1,703. 247,663

Juniper Apartments is financed from HCD in the amount of \$295,000. The loan requires interest at 3%, beginning in April 2014, and interest is payable from residual receipts. All unpaid principal and interest will be payable in April 2044. Accrued interest as of October 31, 2022 totaled \$75,738. 295,000

Juniper Apartments is also financed from CDBG in the amount of \$905,233. The loan requires interest at 3% and is payable at from residual receipts on April 1 annually. All unpaid principal and interest will be payable in January 2047. The loan is secured by a deed of trust. Accrued interest as of October 31, 2022 totaled \$154,807. 905,233

Windsong Duplexes is financed from HCD in the amount of \$303,000. The loan requires interest at 3%, beginning in April 2014, and interest is payable from the lower of accrued interest or residual receipts. All unpaid principal and interest will be payable in October 2026. Accrued interest as of October 31, 2022 totaled \$185,135. 303,000

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<p>Humboldt Bay Housing Development Corporation (HBHDC) obtained a note payable for the purchase of the Windsong Subdivision for the purpose of developing low income housing using a loan of \$351,000 from the City of Arcata with 0% interest. After 40 years the principal on this loan will be credited as paid in full once 6 of the lots are developed in accordance with the agreement and managed in compliance with the affordability restrictions. On December 14, 2006 a loan of \$330,000 for 3 more lots called "Plum Village" were added under the same terms. On September 22, 2008 a development called Janes Creek Meadows was started under these same terms. A loan for \$880,000 was used to acquire the land. Construction of the homes is complete.</p>	1,561,500
<p>HBHDC obtained a construction loan from City of Arcata for the renovation of Arcata Gardens in March 2022 for \$1,717,442 with interest at 3%. The loan is secured by a Deed of Trust. Accrued interest as of October 31, 2022 totaled \$73,468.</p>	<u>1,499,791</u>
<p>Less: Seller financed notes payable eliminated in consolidation</p>	<u>(3,564,329)</u>
	<u><u>\$ 38,701,125</u></u>

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2022

Changes in long-term debt for the year ended October 31, 2022 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Consolidating Entries</u>	<u>Ending Balance</u>
Funds	\$ 2,122,356	\$ 1,217,497	\$ -	\$ 553,151	\$ -	\$ 2,786,702
Owned projects	10,195,313		-	212,389	-	9,982,924
Controlled entities	27,110,204	2,307,900	15,711,626	2,864,276	(3,564,329)	38,701,125
	<u>\$ 39,427,873</u>	<u>\$ 3,525,397</u>	<u>\$ 15,711,626</u>	<u>\$ 3,629,816</u>	<u>\$ (3,564,329)</u>	<u>\$ 51,470,751</u>

Aggregate maturities required on the mortgages and notes payable as of October 31, 2022 are as follows:

<u>For the year ended October 31:</u>	<u>Funds</u>	<u>Owned</u>	<u>Controlled</u>	<u>Total</u>
2022	\$ 966,761	\$ 219,092	\$ 605,711	\$ 1,791,564
2023	15,710	226,175	637,558	879,443
2024	16,389	233,677	671,685	921,751
2025	17,098	241,629	707,366	966,093
2026	17,839	250,081	3,055,602	3,323,522
Thereafter	1,752,905	8,812,270	33,023,203	43,588,378
	<u>\$ 2,786,702</u>	<u>\$ 9,982,924</u>	<u>\$ 38,701,125</u>	<u>\$ 51,470,751</u>

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2022

6. Commitments and Contingencies

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

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

- A. Pine Gardens I, Inc. has the following ongoing obligations related to Clara Court, L.P. (Clara):
- i. Pine Gardens I, Inc. is required to establish a separate Operating Reserve Account in the amount of \$105,000 for Clara. This reserve has been funded.
 - ii. Pine Gardens I, Inc. has pledged to lend Clara any operating loans to fund operating deficits incurred by Clara during the period commencing at rental achievement and expiring 60 months thereafter. No funds have been advanced to the Partnership pursuant to this agreement.
 - iii. Pine Gardens I, Inc. is required to make capital contributions to Clara to compensate the limited partner for any ongoing shortfall in the tax credits which are hereinafter expected to accrue for the benefit of the limited partner.
 - iv. Pine Gardens I, Inc. is required to make capital contributions for the portion of the Development Fee Note that remains unpaid by the thirteenth anniversary of the completion of the construction of Clara.
 - v. Pine Gardens I, Inc. is required to purchase the limited partner's interest in Clara for the total amount of capital contributions contributed by the limited partner plus any expenses incurred by the limited partner, based upon the occurrence of various specified events related to the failure of Clara to achieve the anticipated results. The management of Clara believes that it is highly unlikely that the GP will have any liability related to this obligation.
- B. Pine Gardens I, Inc. has the following obligations related to McCarty Manor Associates, LP (the Partnership):
- i. Pine Gardens I, Inc. together with RCHDC, is required to maintain an aggregate net worth of not less than \$500,000 and liquidity of not less than \$250,000 exclusive of any interest in the Partnership.
 - ii. Pine Gardens II, Inc. (PGII), an unaffiliated entity that is funded by RCHDC, has agreed to make a subordinated Permanent Loan to the Partnership in the amount of \$700,000 at the long term Applicable Federal Rate for a term of 55 years commencing with the Investor's Contribution of its third installment of equity. PGII entered into a note payable agreement with McCarty Manor.

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
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- iii. Pine Gardens I, Inc. is required to purchase the limited partner's interest in the Partnership for the total amount of capital contributions contributed by the limited partner plus any expenses incurred by the limited partner, based upon the occurrence of various specified events related to the failure of the Partnership to achieve the anticipated results. Management believes that it is highly unlikely that Pine Gardens I, Inc. will have any liability related to this obligation.
 - iv. Pine Gardens I, Inc. is required to establish a separate Operating Reserve for the Partnership in the amount of \$200,000 out of the fourth installment of capital by the limited partner.
 - v. To the extent not otherwise funded from the Operating Reserve discussed above, Pine Gardens I, Inc. is required to make Operating Loans to the Partnership to fund any Operating Deficits throughout the Tax Credit Compliance period.
 - vi. To the extent funds are not otherwise available from other construction sources of funds for the Partnership, Pine Gardens I, Inc. shall be obligated to make Completion Loans to the Partnership for construction cost overruns through the date that the Partnership generates a 1.15 debt service coverage ratio for three consecutive months following the completion of construction.
 - vii. Pine Gardens I, Inc. is required to make a capital contribution to the Partnership in an amount equal to any Developer Fee that remains unpaid as of the twelfth anniversary of the Completion Date as defined, so that the Partnership has adequate resources to pay the remainder of the Developer Fee.
 - viii. Pine Gardens I, Inc. is required to make capital contributions that may be necessary to compensate the limited partner for any ongoing tax credit shortfalls that might occur over the course of the Tax Credit Compliance period.
- C. Pine Gardens I, Inc., as the sole member of Autumn Village LLC, and RCHDC have the following ongoing obligations related to Autumn Village Associates, LP (Autumn):
- i. RCHDC is required to fund any construction costs deficits and permanent financing deficits. No funds have been advanced to the Partnership pursuant to this agreement.
 - ii. RCHDC has pledged to lend Autumn any operating loans to fund operating deficits up to \$150,000 incurred by Autumn during the period beginning with stabilized occupancy and ending when Autumn has achieved a debt service coverage ratio of 1.15 or before on an annualized basis for a period approximating five years. No funds have been advanced to the Partnership pursuant to this agreement.
 - iii. Pine Gardens I, Inc. is required to make capital contributions for the portion of the Development Fee Note that remains unpaid by the thirteenth anniversary of the completion of the construction of Autumn.

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
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- iv. Pine Gardens I, Inc. is required to make capital contributions to Autumn to compensate the limited partner for any ongoing shortfall in the tax credits which are hereinafter expected to accrue for the benefit of the limited partner.
 - v. RCHDC is required to establish a separate Sponsor Pledged Reserve for Autumn in the amount of \$108,213. The reserve account was funded during the year ended October 31, 2014.
- D. Pine Meadows Corporation, as the sole member of Willow Terrace, LLC, and RCHDC have the following ongoing obligations related to Willow Terrace Associates, LP (Willow):
- i. RCHDC is required to fund any construction costs deficits and permanent financing deficits. No funds have been advanced to the Partnership pursuant to this agreement.
 - ii. RCHDC has pledged to lend Willow any operating loans to fund operating deficits up to \$130,000 incurred by Willow during the period beginning with stabilized occupancy and ending when Willow has achieved a debt service coverage ratio of 1.15 or before on an annualized basis for a period approximating five years. No funds have been advanced to the Partnership pursuant to this agreement.
 - iii. Pine Meadows Corporation is required to make capital contributions to Willow to compensate the limited partner for any ongoing shortfall in the tax credits and/or energy credits which are hereinafter expected to accrue for the benefit of the limited partner.
- E. RCHDC, as the sole member of Orr Creek Commons LLC, have the following ongoing obligations related to Orr Creek Commons, LP (Orr Creek Commons):
- i. RCHDC is required to fund any construction costs deficits and permanent financing deficits. No funds have been advanced to the Partnership pursuant to this agreement.
 - ii. RCHDC has pledged to lend Orr Creek Commons any operating loans to fund operating deficits up to \$170,000 over a certain period of time as defined in the Partnership Agreement and shall be treated as a non-interest bearing loan. No funds have been advanced to the Partnership pursuant to this agreement.
 - iii. RCHDC is required to make capital contributions to Orr Creek Commons to compensate the limited partner for any ongoing shortfall in the tax credits and/or energy credits which are hereinafter expected to accrue for the benefit of the limited partner.
 - iv. RCHDC entered into a Guaranty Agreement with the Limited Partners to provide certain guarantees pertaining to achieving completion, the operating deficit guarantee, the tax credit guarantee and other provisions as defined in the Guaranty Agreement.

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Notes to the Consolidated Financial Statements - continued
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- F. RCHDC, as the sole member of Orr Creek Commons II Associates LLC, have the following ongoing obligations related to Orr Creek Commons II Associates LP (Orr Creek Commons II):
- i. RCHDC is required to fund any construction costs deficits and permanent financing deficits. No funds have been advanced to the Partnership pursuant to this agreement.
 - ii. RCHDC has pledged to lend Orr Creek Commons II any operating loans to fund operating deficits up to \$146,000 over a certain period of time as defined in the Partnership Agreement and shall be treated as a non-interest bearing loan. No funds have been advanced to the Partnership pursuant to this agreement.
 - iii. RCHDC is required to make capital contributions to Orr Creek Commons to compensate the limited partner for any ongoing shortfall in the tax credits and/or energy credits which are hereinafter expected to accrue for the benefit of the limited partner.
 - iv. RCHDC entered into a Guaranty Agreement with the Limited Partners to provide certain guarantees pertaining to achieving completion, the operating deficit guarantee, the tax credit guarantee and other provisions as defined in the Guaranty Agreement.
- G. RCHDC, as the sole member of Pine Hill Associates LLC, have the following ongoing obligations related to Pine Hill Associates LP (Pine Hill):
- i. RCHDC is required to fund any construction costs deficits and permanent financing deficits. No funds have been advanced to the Partnership pursuant to this agreement.
 - ii. RCHDC has pledged to lend Pine Hill any operating loans to fund operating deficits up to \$156,950 over a certain period of time as defined in the Partnership Agreement and shall be treated as a non-interest bearing loan. No funds have been advanced to the Partnership pursuant to this agreement.
 - iii. RCHDC is required to make capital contributions to Pine Hill to compensate the limited partner for any ongoing shortfall in the tax credits and/or energy credits which are hereinafter expected to accrue for the benefit of the limited partner.
 - iv. RCHDC entered into a Guaranty Agreement with the Limited Partners to provide certain guarantees pertaining to achieving completion, the operating deficit guarantee, the tax credit guarantee and other provisions as defined in the Guaranty Agreement.

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
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H. Pine Gardens I, LLC has the following ongoing obligations related to Arcata Bay Crossing, LP (Arcata Bay Crossing):

- i. Pine Gardens I, LLC and the other co- general partner is required to make capital contributions to Arcata Bay Crossing to compensate the limited partner for any ongoing shortfall in the tax credits and/or energy credits which are hereinafter expected to accrue for the benefit of the limited partner.

7. NeighborWorks America Grants

During the year ended October 31, 2022, 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>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>
With donor restrictions	\$ -	\$ -	\$ -
Expendable	285,000	285,000	-
Total NeighborWorks America grants received	<u>\$ 285,000</u>	<u>\$ 285,000</u>	<u>\$ -</u>

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

	<u>Cash</u>	<u>Fixed Assets</u>	<u>Notes Receivable</u>	<u>Advances to Affiliates</u>	<u>Total</u>
Beginning of the year	\$ 75,000	\$ 65,500	\$ 350,000	\$ 469,800	\$ 960,300
Release from restrictions	-	-	-	-	-
Grants	-	-	-	-	-
End of the year	<u>\$ 75,000</u>	<u>\$ 65,500</u>	<u>\$ 350,000</u>	<u>\$ 469,800</u>	<u>\$ 960,300</u>

8. Self-Insurance

RCHDC's dental and vision insurance plans are funded through a restricted bank account established to provide medical benefits for eligible employees and their dependents. When necessary, RCHDC makes a monthly contribution to the account to cover expected expenses. As of October 31, 2022, RCHDC has \$16,890 in cash restricted for the self-insurance plan and accounts payable for amounts that were available to fund outstanding claims.

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
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9. Defined Contribution Pension Plan

Effective January 1, 2013, RCHDC established a 401(k) plan that covers all employees who meet certain eligibility requirements. RCHDC matched approximately \$17,513 during the year ended October 31, 2022.

10. Net Assets With Donor Restrictions

Net assets with donor restrictions consisted of the following as of October 31, 2022:

Fair market value of land of \$135,000 purchased from the County of Lake for \$1 for use by Bevins Court Housing Corporation. The land is restricted for affordable housing in Lake County for a period of 40 years from the date of the grant.	\$ 135,000
Crescent City granted to RCHDC \$70,000 and \$85,000 during the years ended October 31, 2006 and 2008, respectively, to be used for rehabilitation of three low-income housing apartments in Crescent City, California. The housing projects must remain affordable for 55 years from the dates of the grants.	155,000
Revolving Development Fund (Fund 21) grant liens	467,000
Owned Projects grant liens	3,280,500
Controlled Entities grant liens	6,883,999
Notes receivable with funds obtained from Redevelopment Agency of Mendocino	100,000
Self-Help notes receivable and cash	502,072
Investment in nonconsolidated affiliates	200,000
Fixed assets	884,000
Advances to or investment in affiliates	269,800
Development costs	100,000
Total Net Assets With Donor Restrictions	\$ 12,977,371

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Notes to the Consolidated Financial Statements - continued
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The following is a summary of the grant liens as of October 31, 2022:

DEVELOPMENT FUND (FUND 21)

Lake County Redevelopment Agency note dated November 1, 2004, not to exceed \$250,000, secured by deed of trust on Collier Street property. Note balance increased by \$998,000 in 2009 to maximum balance of \$1,248,000. The maximum principal of \$626,872 has been drawn on later revised terms of the note. The note accrues simple interest at 2%. No payments or interest are due as long as the maker is not in default of an affordable housing covenant. After 10 years and each succeeding 5 years, 10% of the principal shall be reduced until the end of the 55 year term of the note. During the year ended October 31, 2022, the principal balance and accrued interest payable were forgiven. \$ -

Ukiah Redevelopment Agency loan of \$447,000, dated April 1, 2011. The loan is unsecured and non-interest bearing. No payments are due provided RCHDC has remained in continuous compliance with the Regulatory Agreement. 447,000

Gibson Court 4 is financed with an Affordable Housing Program Direct Subsidy. The Agreement requires no payments or interest as long as the Project remains affordable for households with income at or below 50% of average median income. Provided the Project remains in compliance with the AHP conditions for the term of the lien, then repayment of these funds is not required. This note is secured by the apartment project. 20,000

\$ 467,000

OWNED PROJECTS

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

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

292,500

\$ 3,280,500

CONTROLLED PROJECTS

Bevins Court is financed with a \$68,800 Affordable Housing Program Direct Subsidy. The Agreement requires no payments or interest as long as the Project remains affordable for households with income at or below 50% of average median income. The note payable is secured by the apartment project.

\$ 68,800

Bevins Court is also financed with a mortgage note of \$1,104,100 from HUD, under Section 811. The mortgage note bears no interest and repayment is not required as long as the housing remains available for qualifying persons with disabilities. The note matures May 1, 2041 and may not be prepaid without prior written approval of HUD. Provided that the Project remains available and Bevins Court Housing Corporation has not defaulted on the terms of the Note, Mortgage, or Regulatory Agreement, HUD will deem the note paid in full at the maturity date. The mortgage note is secured by the apartment project.

1,104,100

Creekside Village received a \$537,099 Community Development Block Grant passed through from the City of Ukiah for the purpose of rehabilitating the project. In connection with the related grant agreement, Creekside Village must maintain certain tenant eligibility requirements through April 2019.

537,099

Gibson Court is financed with a \$60,000 Affordable Housing Program Direct Subsidy. The Agreement requires no payments of principal or interest as long as the Project remains affordable for households with income at or below 50% of average median income. The note payable is secured by the apartment project.

60,000

Rural Communities Housing Development Corporation
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Gibson Court is also financed with a Capital Advance Mortgage note of \$752,400 from HUD, under Section 811. The mortgage note bears no interest and repayment is not required as long as the housing remains available for qualifying persons with disabilities. The note matures May 1, 2041 and may not be prepaid without prior written approval of HUD. Provided that the Project remains available for disabled persons until the maturity date, and that Gibson Court Housing Corporation has not defaulted under the terms of the note, Mortgage, or Regulatory Agreement, HUD will deem the note paid in full at the maturity date. The mortgage note is secured by the apartment project. 752,400

North Pine St. Apts. is financed with a Capital Advance Mortgage note of \$706,000 with HUD under Section 202 of the National Housing Act of 1959, where HUD agreed to advance a maximum of \$706,000 to the project. The capital advance bears no interest and will not be repaid to HUD as long as the Project remains available to qualifying low income persons for a period of 40 years. If the Project becomes non-compliant within term, the advance becomes immediately due and payable. The note is secured by the project. 706,000

North Pine St. Apts. is also financed through a \$47,500 Affordable Housing Program Direct Subsidy. The Agreement requires no payments or interest as long as the Project remains affordable for households with income at or below 50% of average median income. The note payable is secured by the apartment project. 47,500

Oak Park Manor is financed with a mortgage note of \$1,733,300 with HUD, under Section 202 of the National Housing Act of 1959. The mortgage note bears no interest and repayment is not required as long as the housing remains available for low-income seniors. The note matures August 1, 2033 and may not be prepaid without prior written approval of the HUD. Provided that the Project remains available for low-income seniors until the maturity date, and that Red Bluff Senior Housing Corporation has not defaulted on the terms of the note, Mortgage, or Regulatory Agreement, HUD will deem the note paid in full at the maturity date. The mortgage note is secured by the apartment project. 1,733,300

Washington Court is financed with a \$55,000 Affordable Housing Program Direct Subsidy. The Agreement requires no payments of principal or interest as long as the Project remains affordable for households with income at or below 50% of average median income. The note payable is secured by the apartment project. 55,000

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Notes to the Consolidated Financial Statements - continued
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Washington Court is also financed with a Capital Advance Mortgage note in the amount of \$924,000 with HUD under Section 202 of the National Housing Act of 1959. The capital advance bears no interest and will not be repaid to HUD as long as the Project remains available to qualifying low income persons for a period of 40 years. If the Project becomes non-compliant within the term, the advance becomes immediately due and payable. The note is secured by the apartment project.

924,000

Lenore Street is financed with a \$60,000 Affordable Housing Program Direct Subsidy. The agreement requires no payments of principal or interest as long as the Project remains affordable for households with income at or below 50% of average median income. The note payable is secured by the apartment project.

60,000

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

835,800

\$ 6,883,999

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Notes to the Consolidated Financial Statements - continued
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11. Fair Value Measurements

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

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

In determining the appropriate levels, RCHDC performs a detailed analysis of the assets and liabilities that are subject to fair value measurements. For the year ended October 31, 2022, the application of fair value techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value.

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

The table below presents the balances of assets measured at fair value by level within that hierarchy as of October 31, 2022:

	Total	Level 1	Level 2	Level 3
Land held for development and development costs	\$ 3,421,687	\$ -	\$ -	\$ 3,421,687

The following summarizes the activity for Level 3 investments for the year ended October 31, 2022:

Balance, Beginning of Year	\$ 2,900,732
Total net gains (loss) included in:	
Change in net assets	1,040,955
Purchases, sales, issuances and settlements, net	(520,000)
Balance, End of Year	\$ 3,421,687

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2022

12. Investment in Unconsolidated Entities

A summary of the partnership and project name for the unconsolidated entities as of October 31, 2022 are the following:

<u>Partnership</u>	<u>Project Name</u>
Arcata Bay Crossing, LP	Arcata Bay Crossing
Orr Creek Commons, LP	Orr Creek Commons
Orr Creek Commons II Associates LP	Orr Creek Commons Phase II
Pine Hill Associates LP	Pine Hill Village
Autumn Village Associates, LP	Autumn Village Apartments
Willow Terrace Associates, LP	Willow Terrace
Clara Court, LP	Duane Hill Terrace
McCarty Manor Associates LP	McCarty Manor Apartments

A financial summary of RCHDC's unconsolidated low-income housing limited partnership for and as of the year ended December 31, 2022 is as follows:

Assets:

Rental Property - net	\$ 62,435,641
Other assets	4,274,961
Total assets	<u>\$ 66,710,602</u>

Liabilities and Equity:

Mortgage debt	\$ 22,746,028
Other liabilities	25,842,520
Equity	18,122,054
Total liabilities and equity	<u>\$ 66,710,602</u>
Net rental income	\$ 2,079,672
Rental expenses	5,458,008
Net real estate loss	(3,378,336)
Other income	61,247
Net loss	<u>\$ (3,317,089)</u>

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2022

13. Functional Expenses

The costs of providing program expenses for affordable housing by RCHDC are summarized below. Administrative expenses include those expenses that are not directly identifiable with expenses supporting affordable housing.

	<u>Program</u>	<u>Administrative</u>	<u>Total</u>
Administrative services	\$ 3,491,889	\$ 359,880	\$ 3,851,769
Utilities	1,108,693	7,313	1,116,006
Operating expenses	2,273,713	9,393	2,283,106
Taxes and insurance	1,281,961	81,925	1,363,886
Financial	1,716,441	-	1,716,441
Replacement reserve and residual receipt expenditures	94,705	-	94,705
Depreciation	1,921,594	15,706	1,937,300
Total	<u>\$ 11,888,996</u>	<u>\$ 474,217</u>	<u>\$ 12,363,213</u>

14. Transfer in of Controlled Entities

During the year ended October 31, 2022, RCHDC obtained control of the following entities as RCHDC has the same board as the general partner and limited partner and has economic interest for the following for profit entities:

<u>Controlled Entities</u>	<u>Projects</u>
CC Seabreeze, LLC	Totem Village Apartments Seabreeze Apartments
CC Seagull Villa, LLC	Seagull Villa Apartments

Effective July 1, 2022, RCHDC's Board of Directors became the Board of Directors for Humboldt Bay Housing Development Corporation, a 501(c)(3). The nonprofit has the following projects that were owned by Humboldt Bay Housing Development Corporation:

Arcata Gardens
Juniper Apartments
Windsong Duplexes

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2022

The following summarizes the financial assets and liabilities transferred as of the various control dates:

Assets:

Rental Property - net	\$ 15,990,561
Other assets	2,027,860
Total assets	\$ 18,018,421

Liabilities and Net Assets:

Mortgage debt	\$ 15,781,626
Other liabilities	3,554,634
Net Assets	(1,317,839)
Total liabilities and equity	\$ 18,018,421

15. Current Concentration Due to Certain Conditions

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

16. Liquidity and Availability of Resources

RCHDC has financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures. This amount consists of cash and accounts receivable as presented on the accompanying Consolidated Statement of Financial Position. None of these amounts are subsequent to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the Consolidated Statement of Financial Position date, other than as disclosed in the Consolidated Statement of Financial Position.

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2022

RCHDC manages its liquidity by developing and adopting annual operating budgets that provide sufficient funds for general expenditures in meeting its liabilities and other obligations as they become due. The Organization maintains financial assets on hand to meet normal operating expenses. In addition, the projects that are owned and/or controlled by RCHDC maintain funds in reserve for replacement accounts and other reserves as required by the partnership and regulatory agreements. The funds are used for the benefit of the tenants and/or projects as required by HUD. The funds may be withdrawn only with approval of HUD.

17. Subsequent Events

Events that occur after the Consolidated Statement of Financial Position 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 Consolidated Statement of Financial Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Consolidated Statement of Financial Position date require disclosure in the accompanying notes. Management evaluated the activity of RCHDC through April 28, 2023 (the date the consolidated financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the Consolidated Financial Statements or disclosure in the Notes to the Consolidated Financial Statements.

SUPPLEMENTAL INFORMATION

Rural Communities Housing Development Corporation
Consolidating Schedule of Financial Position
October 31, 2022

Assets	Funds	Owned Projects	Controlled Entities	Consolidating Entries	Totals
Current Assets:					
Cash and equivalents	\$ 3,830,266	\$ 23,093	\$ 1,110,348	\$ -	\$ 4,963,707
Tenant accounts receivable	-	40,304	230,373	-	270,677
Tenant assistance accounts receivable	-	19,912	95,052	-	114,964
Other accounts receivable	11,842	132,546	74,882	-	219,270
Due from funds	-	-	408,074	(408,074)	-
Due from owned projects	386,552	-	-	(386,552)	-
Due from controlled entities	1,433,873	-	-	(1,433,873)	-
Due from related parties	691,265	-	661,525	-	1,352,790
Prepaid expenses	16,855	13,965	178,477	-	209,297
Total Current Assets	6,370,653	229,820	2,758,731	(2,228,499)	7,130,705
Deposits:					
Tenant security deposits held in trust	-	45,350	300,956	-	346,306
Tax and insurance impounds	-	33,297	254,589	-	287,886
Replacement reserves	32,584	511,068	4,497,312	-	5,040,964
Other reserves	19,988	244,844	710,480	-	975,312
Residual receipts reserves	-	69,206	1,469,229	-	1,538,435
Cash restricted for self-insurance plan	16,890	-	-	-	16,890
Total Deposits	69,462	903,765	7,232,566	-	8,205,793
Fixed Assets - Net	1,070,731	10,758,480	34,205,463	-	46,034,674
Other Assets:					
Long-term notes receivable	3,105,861	-	-	-	3,105,861
Developer notes receivable	309,837	-	-	-	309,837
Advances and investments in consolidated affiliates	472,804	-	332,937	(805,741)	-
Notes receivable from consolidated affiliates	3,564,329	-	-	(3,564,329)	-
Advances and investments in nonconsolidated affiliates	1,538,163	-	224,746	-	1,762,909
Land held for development	1,029,843	-	-	-	1,029,843
Development costs	2,391,844	-	-	-	2,391,844
Total Other Assets	12,412,681	-	557,683	(4,370,070)	8,600,294
Total Assets	\$ 19,923,527	\$ 11,892,065	\$ 44,754,443	\$ (6,598,569)	\$ 69,971,466

See Independent Auditor's Report.

Rural Communities Housing Development Corporation
Consolidating Schedule of Financial Position - continued
October 31, 2022

Liabilities and Net Assets	Funds	Owned Projects	Controlled Entities	Consolidating Entries	Totals
Current Liabilities:					
Accounts payable and accrued liabilities	\$ 462,681	\$ 480,259	\$ 666,004	\$ -	\$ 1,608,944
Residual receipts liability	-	67,706	1,272,835	-	1,340,541
Accrued interest payable	141,193	7,723	1,553,224	-	1,702,140
Due to funds	-	386,552	1,433,873	(1,820,425)	-
Due to controlled properties	408,074	-	-	(408,074)	-
Current portion of mortgages and notes payable	966,761	219,092	592,125	-	1,777,978
Deferred revenue	-	2,116	27,691	-	29,807
Total Current Liabilities	1,978,709	1,163,448	5,545,752	(2,228,499)	6,459,410
Long-Term Liabilities:					
Tenant security deposits	-	46,323	303,891	-	350,214
Accrued interest payable	436,000	2,558,615	3,234,734	-	6,229,349
Mortgages and notes payable - net	1,819,941	9,763,832	41,673,329	(3,564,329)	49,692,773
Less: unamortized debt issuance costs	-	(50,214)	(827,166)	-	(877,380)
Total Long-Term Liabilities	2,255,941	12,318,556	44,384,788	(3,564,329)	55,394,956
Total Liabilities	4,234,650	13,482,004	49,930,540	(5,792,828)	61,854,366
Net Assets (Deficit):					
Net assets (deficit) without donor restrictions	13,450,005	(4,870,439)	(12,634,096)	(805,741)	(4,860,271)
Net assets with donor restrictions	2,238,872	3,280,500	7,457,999	-	12,977,371
Total Net Assets (Deficit)	15,688,877	(1,589,939)	(5,176,097)	(805,741)	8,117,100
Total Liabilities and Net Assets	\$ 19,923,527	\$ 11,892,065	\$ 44,754,443	\$ (6,598,569)	\$ 69,971,466

See Independent Auditor's Report.

Rural Communities Housing Development Corporation
Consolidating Schedule of Activities and Changes in Net Assets
Year ended October 31, 2022

	<u>Funds</u>	<u>Owned Projects</u>	<u>Controlled Entities</u>	<u>Consolidating Entries</u>	<u>Totals</u>
Revenues					
Net tenant rents	\$ -	\$ 415,728	\$ 3,787,282	\$ -	\$ 4,203,010
Tenant assistance payments	-	592,414	3,243,227	-	3,835,641
Other rents	82,735	-	-	-	82,735
Grant income	285,038	-	-	-	285,038
Management fees and reimbursements	966,593	-	-	(595,858)	370,735
Operational revenue	1,691,847	-	-	-	1,691,847
Unrealized gain on land development	955	-	-	-	955
Other revenue	1,250,994	7,367	56,467	-	1,314,828
Total Revenues	<u>4,278,162</u>	<u>1,015,509</u>	<u>7,086,976</u>	<u>(595,858)</u>	<u>11,784,789</u>
Expenses					
Administrative services	2,399,203	218,855	1,233,711	-	3,851,769
Management fees	-	81,384	467,842	(549,226)	-
Bookkeeping and accounting fees	-	1,944	44,688	(46,632)	-
Utilities	36,565	152,808	926,633	-	1,116,006
Operating and maintenance:					
Operating expenses	46,967	206,823	2,029,316	-	2,283,106
Taxes and insurance	409,624	81,303	872,959	-	1,363,886
Financial	28,992	331,628	1,355,821	-	1,716,441
Total Expenses	<u>2,921,351</u>	<u>1,074,745</u>	<u>6,930,970</u>	<u>(595,858)</u>	<u>10,331,208</u>
Change in Net Assets from Operations	<u>1,356,811</u>	<u>(59,236)</u>	<u>156,006</u>	<u>-</u>	<u>1,453,581</u>
Non-Operating Revenue / (Expenses)					
Interest income	130,240	77	3,649	-	133,966
Replacement reserve and residual receipt expenditures	-	(81,888)	(12,817)	-	(94,705)
Depreciation	(78,528)	(439,492)	(1,419,280)	-	(1,937,300)
Total Non-Operating Revenue / (Expenses)	<u>51,712</u>	<u>(521,303)</u>	<u>(1,428,448)</u>	<u>-</u>	<u>(1,898,039)</u>
Change in Net Assets	1,408,523	(580,539)	(1,272,442)	-	(444,458)
Net Assets at the Beginning of the Year	14,907,226	(1,009,400)	(2,585,816)	(460,937)	10,851,073
Transfer in of net assets of controlled entities	-	-	(1,317,839)	-	(1,317,839)
Elimination of controlled investments, previously related party	-	-	-	(188,087)	(188,087)
Capital contribution for controlled entity	-	-	-	(156,717)	(156,717)
Release from restriction - debt forgiveness	(626,872)	-	-	-	(626,872)
Net Assets at the End of the Year	<u>\$ 15,688,877</u>	<u>\$ (1,589,939)</u>	<u>\$ (5,176,097)</u>	<u>\$ (805,741)</u>	<u>\$ 8,117,100</u>

See Independent Auditor's Report.

Rural Communities Housing Development Corporation
Consolidating Schedule of Cash Flows
Year ended October 31, 2022

	<u>Funds</u>	<u>Owned Projects</u>	<u>Controlled Entities</u>	<u>Consolidating Entries</u>	<u>Totals</u>
Cash Flows From Operating Activities					
Change in total net assets from operations	\$ 1,408,523	\$ (580,539)	\$ (1,272,442)	\$ -	\$ (444,458)
Adjustments to Reconcile Changes in Net Assets to Net Cash From Operating Activities					
Net present value of notes receivable	(23,921)	-	-	-	(23,921)
Increase (decrease) in long-term accrued interest	(137,681)	192,057	1,850,815	-	1,905,191
Depreciation	78,528	439,492	1,419,280	-	1,937,300
Amortization of debt issuance costs	-	1,415	45,970	-	47,385
Unrealized gain on land development	(955)	-	-	-	(955)
Release of grant liens from sale of real estate	(626,872)	-	-	-	(626,872)
Decrease (Increase) in:					
Net tenant accounts receivable	-	(23,637)	(49,452)	-	(73,089)
Tenant assistance accounts receivable	-	(3,122)	(82,005)	-	(85,127)
Other accounts receivable	(57)	(132,546)	(74,882)	-	(207,485)
Due from controlled entities	(1,008,050)	-	-	1,008,050	-
Prepaid expenses	110,962	451	(84,270)	-	27,143
Increase (Decrease) in:					
Accounts payable and accrued liabilities	348,468	318,143	(504,522)	-	162,089
Residual receipts liability	-	30,389	84,736	-	115,125
Accrued interest payable	9,035	(540)	(1,332,876)	-	(1,324,381)
Due to funds	-	-	1,008,050	(1,008,050)	-
Deferred revenue	-	799	(3,335)	-	(2,536)
Net Cash From Operating Activities	<u>157,980</u>	<u>242,362</u>	<u>1,005,067</u>	<u>-</u>	<u>1,405,409</u>
Cash Flows From Investing Activities					
Purchase of fixed assets	(26,509)	(217,622)	(80,386)	-	(324,517)
Decrease in due from related parties	108,091	-	-	-	108,091
Purchase of investment in consolidated affiliates	(156,717)	-	-	-	(156,717)
Increase in long-term notes receivable	(266,335)	-	-	-	(266,335)
Cash from merger of controlled entities	-	-	1,865,187	-	1,865,187
Developer notes receivable	9,903	-	-	-	9,903
Proceeds on sale of developed lots	53,000	-	-	-	53,000
Land held for development and development costs	(573,000)	-	-	-	(573,000)
Net Cash From Investing Activities	<u>(851,567)</u>	<u>(217,622)</u>	<u>1,784,801</u>	<u>-</u>	<u>715,612</u>

See Independent Auditor's Report.

Rural Communities Housing Development Corporation
Consolidating Schedule of Cash Flows - continued
Year ended October 31, 2022

	<u>Funds</u>	<u>Owned Projects</u>	<u>Controlled Entities</u>	<u>Consolidating Entries</u>	<u>Totals</u>
Cash Flows From Financing Activities					
Proceeds from mortgage and note payable	\$ 1,217,497	\$ -	\$ 2,307,900	\$ -	\$ 3,525,397
Principal payments on mortgages and notes payable	(553,151)	(212,389)	(2,864,276)	-	(3,629,816)
Net Cash From Financing Activities	<u>664,346</u>	<u>(212,389)</u>	<u>(556,376)</u>	<u>-</u>	<u>(104,419)</u>
Net Change in Cash and Restricted Cash	(29,241)	(187,649)	2,233,492	-	2,016,602
Cash and Restricted Cash - Beginning of Year	<u>3,928,969</u>	<u>1,114,507</u>	<u>6,109,422</u>	<u>-</u>	<u>11,152,898</u>
Cash and Restricted Cash - End of Year	<u>\$ 3,899,728</u>	<u>\$ 926,858</u>	<u>\$ 8,342,914</u>	<u>\$ -</u>	<u>\$ 13,169,500</u>
Supplemental Disclosures					
Amounts paid for interest	<u>\$ 157,638</u>	<u>\$ 138,696</u>	<u>\$ 791,912</u>	<u>\$ -</u>	<u>\$ 1,088,246</u>
Non-Cash Investing Activities					
Capitalized interest	<u>\$ 40,412</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,412</u>

See Independent Auditor's Report.

Rural Communities Housing Development Corporation
Schedule of Expenditures of Federal Awards
Year ended October 31, 2022

Federal Programs:		Funds	Owned Projects	Controlled Entities	Total
U.S. Department of Agriculture:					
Farm Labor Housing Loans and Grants	10.405	\$ -	\$ 2,344,890	\$ -	\$ 2,344,890
Rural Rental Housing Loans (Section 515 and 412)	10.415	-	653,845	-	653,845
Rural Rental Assistance Payments	10.427	-	219,572	-	219,572
Guaranteed Rural Rental Housing Program (Section 538)	10.438	-	674,699	-	674,699
Community Facilities Loans and Grants	10.766	583,065	-	-	583,065
Total U.S. Department of Agriculture		583,065	3,893,006	-	4,476,071
U.S. Department of Housing and Urban Development:					
Mortgage Insurance Rental Housing	14.134	-	-	7,580,146	7,580,146
Supportive Housing For the Elderly (Section 202)	14.157	-	-	4,199,100	4,199,100
Project Rental Assistance Contract	14.157	-	-	249,322	249,322
Supportive Housing for Person with Disabilities (Section 811)	14.181	-	-	1,952,369	1,952,369
Community Development Block Grant	14.228	-	-	537,099	537,099
Home Investment Partnership Program (HOME) (Pass-Through California Department of Housing & Community Dev)	14.239	-	6,298,105	961,544	7,259,649
Section 8 Cluster					
Section 8 Housing Assistance Payments Program (Pass-Through Contract Administrator)	14.195	-	372,842	2,293,640	2,666,482
Total Section 8 Cluster		-	372,842	2,293,640	2,666,482
Total U.S. Department of Housing and Urban Development		-	6,670,947	17,773,220	24,444,167
NeighborWorks America					
Expendable Grants	21.000	279,500	-	-	279,500
Total NeighborWorks America		279,500	-	-	279,500
Total Federal Awards Expended		\$ 862,565	\$ 10,563,953	\$ 17,773,220	\$ 29,199,738

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Rural Communities Housing Development Corporation and Affiliates under programs of the federal government for the year ended October 31, 2022.

The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Rural Communities Housing Development Corporation and Affiliates, it is not intended to and does not present Rural Communities Housing Development Corporation and Affiliates' financial position, changes in net assets, or cash flows.

See Independent Auditor's Report.

Rural Communities Housing Development Corporation
Schedule of Expenditures of Federal Awards - continued
Year ended October 31, 2022

2. Schedule of Significant Accounting Policies

- a) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- b) Rural Communities Housing Development Corporation and Affiliates has elected not to use the 10 percent de minimus indirect cost rate as allowed under the Uniform Guidance.
- c) The outstanding balance of loan and loan guarantee programs at October 31, 2022 with continuing compliance requirements which are reported as federal expenditures on the accompanying Schedule of Expenditures of Federal Awards was \$25,150,668.

See Independent Auditor's Report.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Rural Communities Housing Development Corporation

We have audited, 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, the consolidated financial statements of Rural Communities Housing Development Corporation and Affiliates (the Corporation), which comprise the consolidated statement of financial position as of October 31, 2022, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 28, 2023.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Corporation'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 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Tidwell Group, LLC

Columbus, Ohio
April 28, 2023



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of
Rural Communities Housing Development Corporation

Report on Compliance for Each Major Federal Program

We have audited Rural Communities Housing Development Corporation and Affiliates' (the Corporation) compliance with the compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on the Corporation's major federal programs for the year ended October 31, 2022. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Corporation's major federal programs based on our audit of the compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Corporation's compliance.

Opinion on Each Major Federal Program

In our opinion, the Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended October 31, 2022.

Report on Internal Control Over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Corporation's internal control over compliance with the requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Corporation'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 compliance requirement of the 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 compliance requirement of the federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a compliance requirement of the federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention by those charged with governance.

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

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

Tidwell Group, LLC

Columbus, Ohio
April 28, 2023

Rural Communities Housing Development Corporation
 Schedule of Findings and Questioned Costs
 Year ended October 31, 2022

Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	<i>unmodified</i>		
Internal control over financial reporting:			
Material weakness identified?	_____	Yes	_____ <u>x</u> _____ No
Significant deficiency identified not considered to be material weaknesses?	_____	Yes	_____ <u>x</u> _____ No
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>unmodified</i>		
Internal control over financial reporting:			
Material weakness identified?	_____	Yes	_____ <u>x</u> _____ No
Significant deficiency identified not considered to be material weaknesses?	_____	Yes	_____ <u>x</u> _____ No
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?	_____	Yes	_____ <u>x</u> _____ No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
14.157	Supportive Housing for the Elderly (Section 202)
14.181	Supportive Housing for the Disabled (Section 811)
14.195	Section 8 Housing Assistance Payments (cluster)

Dollar threshold used to distinguish between Type A and Type B programs:	\$875,992
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Auditee qualified as low-risk auditee?	_____ <u>x</u> _____ Yes	_____ _____ No
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Rural Communities Housing Development Corporation
Schedule of Findings and Questioned Costs - continued
Year ended October 31, 2022

Findings – Financial Statements Audit

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

Federal Award Findings and Questioned Costs

There were no findings or questioned costs relative to federal awards.

Prior Year Findings

None reported.