RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION

Annual Financial Report

October 31, 2013

Audit Firm Data

Firm:	Clark, Schaefer, Hackett & Co. 4449 Easton Way, Suite 400 Columbus, Ohio 43219
Employer ID:	31-0800053
Phone:	614-885-2208
Fax:	614-885-8159
Contact:	Todd Fentress, CPA

CLARK SCHAEFER HACKETT
STRENGTH IN NUMBERS

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
MISSION and LEADERSHIP
October 31, 2013

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

BOARD OF DIRECTORS

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

ADMINISTRATION

Lois Goforth – Chief Executive Officer

Chuck Lange – Fiscal Officer

ADDRESS OF CORPORATE OFFICE

499 Leslie Street

Ukiah, California 95482

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
October 31, 2013

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated statement of financial position of Rural Communities Housing Development Corporation and Affiliates ("Corporation") as of October 31, 2013 and the related consolidated statements of activities and changes in net assets (deficit) and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

4449 easton way, ste. 400
columbus, oh 43219

www.cshco.com
p. 614.885.2208
f. 614.885.8159

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Rural Communities Housing Development Corporation and Affiliates as of December 31, 2013, and the results of their operations and changes in net assets (deficit), and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information shown on pages 40-47, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards on page 48, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards* we have also issued our report dated April 29, 2014, on our consideration of Rural Communities Housing Development Corporation and Affiliates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rural Communities Housing Development Corporation and Affiliates' internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Columbus, Ohio
April 29, 2014

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATED STATEMENT of FINANCIAL POSITION
October 31, 2013

ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Current Assets:				
Cash and cash equivalents	$ 3,388,175	$ -	$ 286,691	$ 3,674,866
Net tenant accounts receivable	15,929	-	-	15,929
Tenant assistance accounts receivable	5,351	-	-	5,351
Other accounts receivable	57,079	-	-	57,079
Due from related parties	1,045,391	-	-	1,045,391
Prepaid expenses	287,621	-	-	287,621
Total Current Assets	4,799,546	-	286,691	5,086,237
Deposits:				
Tenant security deposits held in trust	185,623	-	-	185,623
Self-Help construction deposits held in trust	1,300	-	-	1,300
Tax and insurance impounds	141,055	-	-	141,055
Replacement reserves	3,217,091	-	-	3,217,091
Other required reserves	713,378	-	-	713,378
Escrow deposit for loan closing	830,000	-	-	830,000
Residual receipts reserves	504,013	-	-	504,013
Cash restricted for pension plan	24,304	-	-	24,304
Cash restricted for self-insurance plan	61,744	-	-	61,744
Total Deposits	5,678,508	-	-	5,678,508
Fixed Assets, net of Accumulated Depreciation	18,064,871	9,782,400	809,000	28,656,271
Other Assets:				
Long-term notes receivable	977,775	205,000	858,881	2,041,656
Developer notes receivable	1,610,164	-	-	1,610,164
Loan costs, net	218,372	-	-	218,372
Advances and investments in nonconsolidated affiliates	142,785	-	269,800	412,585
Land held for development	1,465,569	726,092	-	2,191,661
Development costs	2,865,589	2,198,701	400,000	5,464,290
Total Other Assets	7,280,254	3,129,793	1,528,681	11,938,728
Total Assets	$ 35,823,179	$ 12,912,193	$ 2,624,372	$ 51,359,744

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

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATED STATEMENT of FINANCIAL POSITION - Continued
October 31, 2013

	Unrestricted	Restricted	Restricted	Totals
Current Liabilities:				
Accounts payable and accrued liabilities	$ 663,167	$ -	$ -	$ 663,167
Residual receipts liability	301,735	-	-	301,735
Accrued interest payable	84,333	-	-	84,333
Due to related parties	22,076	-	-	22,076
Current portion mortgages and notes payable	2,393,228	-	-	2,393,228
Deferred revenue	29,178	-	-	29,178
Total Current Liabilities	3,493,717	-	-	3,493,717
Long-Term Liabilities:				
Tenant security deposits	187,639	-	-	187,639
Self-Help construction deposits	1,300	-	-	1,300
Accrued interest payable	2,599,322	-	-	2,599,322
Mortgages and notes payable, net	29,910,814	-	-	29,910,814
Total Long-Term Liabilities	32,699,075	-	-	32,699,075
Total Liabilities	36,192,792	-	-	36,192,792
Net Assets (Deficit)	(369,613)	12,912,193	2,624,372	15,166,952
Total Liabilities & Net Assets (Deficit)	$ 35,823,179	$ 12,912,193	$ 2,624,372	$ 51,359,744

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

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATED STATEMENT of ACTIVITIES and CHANGES in NET ASSETS (DEFICIT)
Year ended October 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Net tenant rents	$ 1,947,420	$ -	$ -	$ 1,947,420
Tenant assistance payments	3,295,182	-	-	3,295,182
Other rents	343,462	-	-	343,462
Grant income	107,050	-	175,000	282,050
Interest income	229,808	-	-	229,808
Management fees and reimbursements	345,400	-	-	345,400
Operational revenue	176,156	-	-	176,156
Other revenue	661,203	-	-	661,203
Total Revenues	7,105,681	-	175,000	7,280,681
EXPENSES				
Administrative services	1,893,191	-	-	1,893,191
Utilities	735,546	-	-	735,546
Operating and maintenance:				
Operating expenses	995,481	-	-	995,481
Replacement reserve and residual receipt expenditures	460,047	-	-	460,047
Taxes and insurance	782,394	-	-	782,394
Interest expense	1,463,477	-	-	1,463,477
Unrealized loss on land development and notes receivable	75,579	-	-	75,579
Depreciation and amortization	1,203,652	-	-	1,203,652
Total Expenses	7,609,367	-	-	7,609,367
Change in Net Assets	(503,686)	-	175,000	(328,686)
Net Asset at the Beginning of the Year	134,073	12,912,193	2,449,372	15,495,638
Net Assets (Deficit) at the End of the Year	$ (369,613)	$ 12,912,193	$ 2,624,372	$ 15,166,952

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

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATED STATEMENT of CASH FLOWS
Year ended October 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Total Net Assets from Operations	$ (328,686)
Adjustments to Reconcile Changes in Net Assets to Net cash Provided by Operating Activities:	
Net present value of notes receivable	(18,656)
Increase in long-term accrued interest, net	184,098
Depreciation and amortization	1,203,652
Unrealized loss on land development and notes receivable	75,579
Allowance for doubtful accounts	(149,518)
Decrease (Increase) in:	
Net tenant accounts receivable	2,389
Tenant assistance accounts receivable	3,541
Other accounts receivable	(30,783)
Prepaid expenses	(229,532)
Increase (Decrease) in:	
Accounts payable and accrued liabilities	135,051
Residual receipts liability	301,735
Accrued interest payable	30,771
Deferred revenue	73
Net Cash Provided by Operating Activities	1,179,714
CASH FLOWS FROM INVESTING ACTIVITIES	
Decrease (Increase) in:	
Tenant deposits held in trust	(6,702)
Cash restricted for loan closing	(10,000)
Tax and insurance impounds	6,038
Replacement reserve	(93,043)
Other reserves	81,798
Residual receipts reserve	72,542
Cash restricted for pension plan	(10,621)
Cash restricted for self-insurance plan	(8,646)
Purchase of fixed assets	(249,084)
Decrease in due from related parties	20,046
Increase in long-term notes receivable	15,634
Developer notes receivable	(546,718)
Development costs	(337,846)
Net Cash Provided by Investing Activities	(1,066,602)

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

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATED STATEMENT of CASH FLOWS – Continued
Year ended October 31, 2013

CASH FLOWS FROM FINANCING ACTIVITIES	
Loan costs	$ (17,384)
Decrease in due to related parties	257,268
Principal payments on mortgages and notes payable	(655,928)
Net Cash Used in Financing Activities	(416,044)
Net Increase in Cash and Cash Equivalents	(302,932)
Cash and Cash Equivalents, Beginning	3,977,798
Cash and Cash Equivalents, Ending	$ 3,674,866
SUPPLEMENTAL DISCLOSURES	
Amounts Paid for Interest	$ 894,834
Amounts Paid for Income Tax	$ -
NON CASH INVESTING AND FINANCING ACTIVITIES	
Capitalized accrued interest payable	$ 123,212

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

Note 1. Organization and Summary of Significant Accounting Policies

Organization

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

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 10, 20, 21, 22, 23, 70 and 90 of RCHDC, its owned housing projects, controlled housing projects, and investments in partnerships. All but one of the controlled housing projects are owned by separate corporations or limited liability companies, which share the same board of directors as RCHDC. One of the controlled housing projects is owned by a limited partnership in which both the general partner and the limited partner are not-for-profit corporations, which share the same board of directors as RCHDC. The controlled entities, other than housing projects, are generally corporations or limited liability companies, which share the same board of directors as RCHDC. 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, 2013. There were no events or transactions either excluded or included that would have a significant effect on the consolidated financial statements.

Nonconsolidated Interests in Partnerships

RCHDC, through its controlled entities, holds 0.01% general partner interests in five limited partnerships which operate 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 6 for disclosures regarding potential unanticipated obligations of RCHDC or its consolidated affiliates related to these partnerships. At October 31, 2013, RCHDC's investment in the five limited partnerships totaled $243,385 and is classified as "Advances and investment in nonconsolidated affiliates" in the Consolidated Statement of Financial Position.

Note 1. Organization and Summary of Significant Accounting Policies – (Continued)

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

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

RCHDC Owned Housing Projects	Project Operations Included
Cypress Ridge	McCloud Motel Apartments
Highlands Village	Oak Hill Apartments
Holden Street	Gibson Court 4 Apartments *
Holly Heights I	
Holly Heights II	

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

*Gibson Court Housing Corporation was only able to obtain funding to support 12 of the 16 units at Gibson Court Apartments, RCHDC provided the funding for the remaining 4 units.

** Limited Partner investment interest in Redwood Court Property, A California Limited Partnership.

*** During the year ended October 31, 2013, Fund 10 was closed into Fund 20 and 21.

**** During the year ended October 31, 2013, Fund 23 was closed into Fund 70.

Note 1. Organization and Summary of Significant Accounting Policies – (Continued)

Description of Funds

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

Corporate Fund (Fund 10)

Assets, such as land, buildings, computer equipment and other assets, used by RCHDC to manage its housing projects and funds were recorded in Fund 10. Sources of revenue for Fund 10 included interest earned on bank accounts and other miscellaneous revenues. Fund 10 is charged with depreciation for the fixed assets discussed above. During the year ended October 31, 2013, Fund 10 was closed into Fund 20.

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 discussed above are charged to Fund 20. As noted above, Fund 20 also includes assets, income and expenses previously recorded in Fund 10.

Development Fund (Fund 21)

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

Property Management Fund (Fund 22)

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

First Time Home Buyer Fund (Fund 23)

All direct costs associated with the Home Ownership Center are charged to Fund 23. Revenues for Fund 23 generally include nominal charges to participants in the home ownership classes as well as grant income as appropriate. During the year ended October 31, 2013, Fund 23 was closed into Fund 70.

Note 1. Organization and Summary of Significant Accounting Policies – (Continued)

Description of Funds - continued

Home Ownership Fund (Fund 70)

Fund 70 administers the USDA and HCD Technical Assistance grant funds to support the Self-Help families. Therefore, all costs associated with the oversight and management of the Self-Help program are charged to Fund 70. As noted above, Fund 23 was closed into Fund 70.

Self-Help Construction Trust Fund (Fund 90)

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

Basis of Accounting

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

Net Asset Classifications

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

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

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

Cash and Cash Equivalents

For purposes of the statements of cash flows, RCHDC considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents as of October 31, 2013.

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 charted bank. As of October 31, 2013, RCHDC's Funds, Owned Projects and Controlled Entities held cash in banks in excess of amounts insured by the FDIC of $3,620,556.

Note 1. Organization and Summary of Significant Accounting Policies – (Continued)

Tenant Receivable and Bad Debt Policy

Tenant receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method. Included in expenses are bad debts of $42,017 for the year ended October 31, 2013.

Tenant Deposits Held in Trust

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

Fixed Assets

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

Reserves

The low-income housing projects obtain federal, state and local funding which require certain reserves to be maintained in separate federally insured bank accounts. These accounts include tax and insurance impounds, replacement reserves, other required reserves and residual receipts reserves. Additionally, as disclosed in Note 4, Savings Bank of Mendocino County has a security interest in certain replacement and other required reserves. Use of these funds are restricted as defined in the corporate, partnership, debt and regulatory agreements and therefore, have been excluded from cash in the accompanying Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows.

Loan Costs

Loan costs totaling $227,209 for mortgage financing are amortized using the straight-line method of amortization over the term of the mortgage. Accounting principles generally in the United States of America require that the effective yield method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method. As of October 31, 2013, accumulated amortization totaled $8,837. The estimated amortization expense for each of the next five years approximates $7,000.

Note 1. Organization and Summary of Significant Accounting Policies – (Continued)

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 temporarily restricted net assets. Upon full satisfaction of the affordability restrictions and the reconveyance of the deeds of trust by the granting agencies, the face amount of these liens are reported as grant income.

Notes Receivable

As described in Note 2, RCHDC obtains funding from various external and internal sources to loan funds to individuals that qualify for self-help programs to purchase homes. The notes receivable agreements are subordinate to the first mortgage and other third party financing that has priority. The payment terms vary from 1) fully forgiven providing the buyers continue to reside in the homes for 20 to 30 years, 2) deferred for 5 or more years with payment of principal and interest 3) deferred until the first mortgage is paid in full. At October 31, 2013, RCHDC has a reserve for forgivable loans of $466,609 and net present value reserve of $704,379.

Additionally, as described in Note 5, RCHDC has provided seller financing in the sale of four owned projects. RCHDC also enters into developer notes receivable. Payment of the developer notes will occur as set in the development agreements.

Management reviews its note receivable balances for collectability, based on payment history and review of the underlying real estate. At October 31, 2013, no allowance for doubtful accounts is deemed necessary.

Development Costs and Revenue Recognition

Development costs are recorded on a site-specific basis. Development costs include all expenditures necessary to complete a project including but not limited to the purchase price of land, escrow and closing costs, 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.

Note 1. Organization and Summary of Significant Accounting Policies – (Continued)

Development Costs and Revenue Recognition (continued)

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

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

RCHDC reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the estimated proceeds from the eventual disposition of the real estate or recent appraisals. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. For the year ended October 31, 2013, RCHDC recorded an impairment loss of $225,097. However, RCHDC may in the future sell certain real estate for less than the carrying value or determine that future events would indicate additional impairment.

Income Taxes

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

RCHDC and affiliates account for uncertainty in income taxes in accordance with Accounting Standards Codification ("ASC") 740 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.

RCHDC's previously filed income tax returns for the tax years 2009, 2010, and 2011 remain subject to examination by a taxing authority. RCHDC's income tax returns for the tax year 2012 have not been filed and remain subject to examination by a taxing authority.

See Note 14 for tax notices received from the Internal Revenue Service ("IRS") and the resolution subsequent to year end.

Fair Value of Financial Instruments

RCHDC considers the recorded value of its financial assets and liabilities, which consist primarily of cash, accounts receivable, and account payable, to approximate the fair value of the respective assets and liabilities at October 31, 2013 based upon the short-term nature of the assets and liabilities.

Note 1. Organization and Summary of Significant Accounting Policies – (Continued)

Fair Value of Financial Instruments (continued)

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

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

Fair Value Measurements of Assets and Liabilities

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

Estimates

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

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including April 29, 2014, which is the date the consolidated financial statements were available to be issued.

Note 2. 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:

Fund 21:

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

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

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

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

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

See note 5 for additional notes receivable from seller financing of four previously owned projects. Due to the long-term nature of these loans, minimal principal payments are expected during the year ended October 31, 2014.

Note 3. Fixed Assets

Fixed assets, net of accumulated depreciation, consists of the following at October 31, 2013:

	Beginning Balance	Additions	Deductions	Ending Balance
Fixed Assets:				
Land and Improvements	$ 2,648,672	$ 7,980	$ -	$ 2,656,652
Building and Improvements	44,232,363	136,216	(7,239)	44,361,340
Office Furniture and Equipment	879,990	104,888	(213,182)	771,696
Total Fixed Assets	47,761,025	249,084	(220,421)	47,789,688
Accumulated Depreciation	(18,157,534)	(1,196,304)	220,421	(19,133,417)
Fixed Assets, Net	$ 29,603,491	$ (947,220)	$ -	$ 28,656,271

Note 4. Long-Term Debt

Long-term debt consists of the following at October 31, 2013:

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, 2013, accrued interest totaled $2,476.	$ 679,247

Development Fund (Fund 21)

Redevelopment Agency, City of Ukiah loan to be repaid when primary financing is obtained. This note is unsecured and is non-interest bearing.	18,000
Redevelopment Agency, City of Ukiah loan requiring an annual payment of $500, payable through September 1, 2032. This note is unsecured and is non-interest bearing.	19,500
City of Ukiah loan originally due on December 31, 1999, including simple interest at 3%. This note is unsecured. This note has been extended by the City until called. As of October 31, 2013, accrued interest totaled $73,050.	115,200

Note 4. Long-Term Debt – (Continued)

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, 2013, accrued interest totaled $17,611.	36,500
Savings Bank of Mendocino County loan for land development costs associated with the Lake Mendocino Drive Self-Help property in the maximum amount of $1,500,000 at 7% interest. Interest is payable on the loan monthly in arrears and all unpaid principal and interest was originally due on or before July 21, 2009. This note is secured. This note has been extended until February 27, 2017.	1,032,000
California Department of Housing & Community Development note through the Joe Serna, Jr. grant program dated October 21, 2009. The note is non-interest bearing and principal payments are to be repaid upon the sale of a lot in increments of $19,455.	233,454
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 August 31, 2012. As of October 31, 2013, accrued interest totaled $220,000.	800,000
Savings Bank of Mendocino County $1,829,520 promissory note secured by property at Brush Street originally due October 1, 2007. Interest is fixed at 5.75% and is payable monthly. $484,935 was paid down during the fiscal year ended October 31, 2008 from the $500,000 Neighbor Works loan. This note has been extended to April 1, 2016 with monthly payments of principal and interest of $9,373.	1,282,594
Neighborworks Capital Corporation loan in the amount of $500,000 for Orr Creek Commons (Brush Street property) with interest at 5% per annum payable interest only at the end of each quarter in arrears. The note has been extended until December 1, 2015, and the interest rate has been increased to 5.5% from January 1, 2013 to December 1, 2015. All unpaid principal and interest is due on or before December 31, 2015. This note is secured.	410,000
California Department of Housing and Community Development unsecured note dated August 11, 2008, in the amount of $100,000 (Contract #07-PDL-69) for predevelopment costs related to Orr Creek Commons in the City of Ukiah. The note accrues simple interest of 3% and is repayable on or before August 31, 2014. As of October 31, 2013, accrued interest totaled $15,317.	100,000

Note 4. Long-Term Debt – (Continued)

Rural Community Assistance Corporation ("RCAC") promissory note, not to exceed $500,000 bearing 5% interest with principal and accrued interest originally due on September 1, 2008. This note has been extended until September 1, 2016, and the interest rate has been increased to 6.25% from March 1, 2011 to March 1, 2012. This note is secured. As of October 31, 2011, the entire balance of the loan has been drawn and interest only payments are paid monthly.	500,000
Redevelopment Agency, City of Ukiah loan dated April 20, 2010. The note is unsecured and non-interest bearing. Payments of principal must be made from residual receipts as required by the Agency under the terms of the Regulatory Agreement.	15,000
	$ 5,241,495

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, 2013, interest subsidy totaled $19,069 and accrued interest totaled $6,186.	1,060,532
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, 2013, accrued interest totaled $31,188.	225,000

Note 4. Long-Term Debt – (Continued)

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, 2013, accrued interest totaled $139,764.	908,215
Highlands Village is financed with a mortgage note of $1,675,900 with HUD, under Section 202 of the National Housing Act of 1959. The mortgage note bears interest at the rate of 8.5% per annum and is being repaid in 480 equal monthly installments of principal and interest of $12,285 payable through June 1, 2021. The mortgage is secured by the apartment project. As of October 31, 2013, accrued interest totaled $5,913.	828,440
Holden Street is financed with a mortgage note of $293,000 with HUD, under Section 202 of the National Housing Act of 1959. The mortgage note bears interest at the rate of 9.25% per annum and is being repaid in 454 equal monthly installments of principal and interest of $2,334 payable through October 1, 2020. The mortgage note is secured by the apartment project. As of October 31, 2013, accrued interest totaled $1,098.	142,384
Holly Heights I is financed with two mortgage notes of $125,000 and $670,000, totaling $795,000, with RD under Section 515 of the National Housing Act of 1959. The mortgage notes bear interest at the rate of 8.0% per annum, payable in 468 equal monthly installments (39 years) of principal and interest of $5,550 through October 1, 2017. In addition, there is an interest subsidy from RD associated with these mortgages that reduces the effective interest rate to 6.0%. The subsidy is not recorded on the Project's books as income or expense and reduces the actual monthly payments by the Project to $4,405. The interest subsidy is deducted monthly by RD directly from the contract payments and is estimated at $2,467 for the year ended October 31, 2013. As of October 31, 2013, accrued interest totaled $586.	114,726
Holly Heights I received additional financing with a mortgage note of $238,636 with HCD for new construction and rehabilitation projects under the HOME Program. The mortgage note accrues simple interest at the rate of 3% per annum. The mortgage note is secured by the apartment project. As of October 31, 2013, accrued interest totaled $72,027.	238,636

Note 4. Long-Term Debt – (Continued)

Holly Heights II is financed with two mortgage notes of $664,632 and $105,726, totaling $770,358, with FmHA under Section 515 of the National Housing Act of 1959. The mortgage note contracts bear interest at the rate of 11.875% per annum, payable in 548 equal monthly installments of principal and interest of $7,658 through November 2034. In addition, there is an interest subsidy from Rural Development ("RD") associated with these mortgages that reduces the effective interest rate to 1.0%. The subsidy is not recorded on the Project's books as income or expense and reduces the actual monthly payments by the Project to $1,752. The interest subsidy is deducted monthly by RD directly from the contract payments and for the year ended October 31, 2013 amount to $70,843. As of October 31, 2013, accrued interest totaled $1,124.	709,223
Holly Heights II received additional financing with a mortgage note of $178,928 with the Department of Housing & Community Development for new construction and rehabilitation projects under the HOME Program. The mortgage note contract bears simple interest at the rate of 3% per annum. The mortgage note is secured by the project. As of October 31, 2013, accrued interest totaled $54,304.	178,928
McCloud Motel Apartments is financed with a promissory note from the Housing Assistance Council. The note accrues interest at 5%. The entire balance of principal and accrued interest is due and payable on December 31, 2011. The note has been extended until March 31, 2014. The note is secured by a First Deed of Trust. As of October 31, 2013, accrued interest totaled $127,090.	799,785
Oak Hill Apartments is financed with three mortgage notes originated on October 28, 2004, in the original amounts of $2,500,000, $1,100,000 and $400,000 with the United States Department of Agriculture, Rural Development under Section 514 Labor Housing of the Title V of the Housing Act of 1949. The mortgage notes bear interest at the rate of 1% per annum and payable in monthly installments of $13,205 of principal and interest over the over the thirty-three year term of the loans through October 28, 2037. The note is secured by the apartment project. As of October 31, 2013, accrued interest totaled $2,819.	3,382,916

Note 4. Long-Term Debt – (Continued)

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, 2013, there were no payments made under the terms of this mortgage note. As of October 31, 2013, accrued interest totaled $881,288.	3,442,000
	$ 12,030,785

CONTROLLED ENTITIES

Bevins Court is financed with a promissory note of $100,000 from the County of Lake. The note matures in January 2044 and bears interest on unpaid principal of 2%. Interest is deferred from January 15, 2003, and will be repaid in 37 equal installments of $4,236 beginning January 15, 2008. Annual payments of interest and principal shall be made from "residual receipts" as determined by HUD, or from the Project's own funds. No payments of principal are due before 2014. The promissory note is secured by the apartment project. As of October 31, 2013, accrued interest totaled $7,718.	$ 100,000
North Shore Villas is financed with a mortgage note of $1,488,800 with HUD, under Section 202 of the National Housing Act of 1959. The mortgage note bears interest at the rate of 8.375% per annum and is being repaid in 480 equal monthly installments of principal and interest of $10,773 payable through October 1, 2031. The mortgage note is secured by the apartment project. As of October 31, 2013, accrued interest totaled $8,375.	1,199,947
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, 2013, accrued interest totaled $149,398.	758,824

Note 4. Long-Term Debt – (Continued)

Lakeview Apts. is financed with a mortgage note of $1,656,000 with HUD, under Section 202 of the National Housing Act of 1959. The mortgage note bears interest at the rate of 9.25% per annum and is being repaid in 480 equal monthly installments of principal and interest of $13,093 payable through October 1, 2028. The mortgage note is secured by the apartment project. As of October 31, 2013, accrued interest totaled $9,806.	1,272,078
Jack Simpson Apts. is financed with a mortgage note of $1,619,200 with HUD, under Section 202 of the National Housing Act of 1959. The mortgage note bears interest at the rate of 9.0% per annum and is being repaid in 480 equal monthly installments of principal and interest of $12,490 payable through August 1, 2032. The mortgage note is secured by the apartment project. As of October 31, 2013, accrued interest totaled $10,182.	1,357,624
Siskiyou Garden Apts. is financed with a mortgage note of $485,580 with Berkodia Mortgage Company. The mortgage note bears interest at the rate of 7% per annum and is being repaid in 190 equal monthly installments of principal and interest of $4,007 payable through March 1, 2014. The mortgage note is secured by the apartment project. In addition, there is an interest subsidy from HUD associated with the mortgage that reduces the effective interest rate to .45%. The interest subsidy is deducted monthly by the finance company directly from the contract payments. The total interest subsidy for the year ended October 31, 2013 amounted to $26,169 As of October 31, 2013, accrued interest totaled $92.	19,686
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, 2013, accrued interest totaled $72,933.	202,720

Note 4. Long-Term Debt – (Continued)

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, 2013, interest subsidy totaled $119,678. As of October 31, 2013, accrued interest totaled $2,224.	1,648,175
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, 2013, accrued interest totaled $110.	73,855
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, 2013, accrued interest totaled $336,497.	2,987,557
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, 2013, accrued interest totaled $32,071.	200,000

Note 4. Long-Term Debt – (Continued)

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, 2013, accrued interest totaled $10,659.	2,224,581
Creekside Village is also financed with a promissory note from Rural Communities Housing Development Corporation. The note is non-interest bearing. The entire balance of principal is due and payable on August 16, 2067. The note is secured by a Second Deed of Trust.	1,442,000
Sunshine Village 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, 2013, accrued interest totaled $5,124.	1,069,317
Sunshine 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 5 for seller financing note payable.	830,000
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, 2013, accrued interest totaled $9,188.	1,917,398
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 5 for seller financing note payable.	1,881,000
	19,184,762
Less: Seller financed notes payable eliminated in consolidation	(4,153,000)
	$ 15,031,762

Note 4. Long-Term Debt – (Continued)

Changes in long-term debt for the year ended October 31, 2013 is as follows:

	Beginning Balance	Additions	Reductions	Consolidating Entries	Ending Balance
Funds	$ 5,372,670	$ -	$ 131,175	$ -	$ 5,241,495
Owned Projects	12,331,154	-	300,369	-	12,030,785
Controlled Entities	19,409,146	-	224,384	(4,153,000)	15,031,762
Totals	$ 37,112,970	$ -	$ 655,928	$ (4,153,000)	$ 32,304,042

Aggregate maturities required on the mortgages payable at October 31, 2013 is as follows:

For the Year Ended October 31:	Funds	Owned	Controlled	Total
2014	$ 1,062,925	$ 1,115,275	$ 215,028	$ 2,393,228
2015	11,704	331,940	211,365	555,009
2016	922,204	314,168	228,379	1,464,751
2017	2,327,320	312,562	246,748	2,886,630
2018	13,272	329,886	266,735	609,893
Thereafter	904,070	9,626,954	13,863,507	24,394,531
	$ 5,241,495	$ 12,030,785	$ 15,031,762	$ 32,304,042

Note 5. Seller Financing for Notes Receivable and Notes Payable

RCHDC provided seller financing as follows:

Sunshine Village	$ 830,000
Walnut Village	$ 1,881,000
Creekside Village	$ 1,442,000

As described in Note 4, the seller financed notes payable bear no interest, are secured by First Deeds of Trust and principal is due and payable on August 16, 2067. The notes receivable and notes payable have been eliminated in consolidation.

In 2012, RCHDC sold McCarty Manor to McCarty Manor Associates LP providing seller financing totaling $725,805. The note receivable bears interest of 2.63%, secured with a Deed of Trust and principal and interest are due and payable on October 1, 2067. Payments of principal and accrued interest are due beginning November 1, 2013 with annual payments totaling 75% of Residual Receipts as defined in the note receivable agreement.

Note 6. Commitments and Contingencies

As described in Note 1, RCHDC holds or maintains the General Partner ("GP") interest in five 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) During the construction phase of Clara, Pine Gardens I, Inc. has guaranteed a September 30, 2011 completion date, is required to pay any development deficits and shall cause rental achievement to occur by June 1, 2012. Completion of Clara was delivered in December 2011 and management believes the GP will not have to pay the limited partner for any short fall in tax credit delivery.

ii) 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.

iii) 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.

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

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

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

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

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

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

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

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Note 6. Commitments and Contingencies – (Continued)

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

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

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

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

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

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

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

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

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

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

Note 6. Commitments and Contingencies – (Continued)

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

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

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

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

ii) Pine Gardens II, Inc., 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. $800,000 of funds have already been set aside in a separate bank account for the purpose of making this loan.

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.

Note 6. Commitments and Contingencies – (Continued)

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.

Note 7. Functional Allocation of Expenses

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

Note 8. NeighborWorks America Grants

During the year ended October 31, 2013, RCHDC received grant funds from NeighborWorks America. The grants have been recognized in multiple funds and related corporations. The following provides a listing of the grants received:

Grant Type	Amount Received	Unrestricted	Permanently Restricted
Permanently Restricted	$ 175,000	$ -	$ 175,000
Expendable	87,050	87,050	-
Total NeighborWorks America Grants Received	$ 262,050	$ 87,050	$ 175,000

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

	Fixed Assets	Notes Receivable	Advances to Affiliates	Development Costs	Total
Beginning of the year	$ 740,500	$ 225,000	$ 419,800	$ 150,000	$ 1,535,300
Grants	125,000	-	50,000	-	175,000
End of the year	$ 865,500	$ 225,000	$ 469,800	$ 150,000	$ 1,710,300

Note 9. Self-Insurance

RCHDC's dental and vision insurance plans are funded through a restricted bank account established to provide medical benefits for eligible employees and their dependents. When necessary RCHDC makes a monthly contribution to the account to cover expected expenses. At October 31, 2013, RCHDC has $61,744 in cash restricted for the self-insurance plan and accounts payable for amounts that were available to fund outstanding claims.

Note 10. Defined Contribution Pension Plan

RCHDC has a 403(b) defined contribution pension plan covering all employees working 20 hours per week or more. RCHDC may make a discretionary matching contribution to the plan each year, not to exceed 5% of the contributing employees' regular pay. For an employee to be eligible to receive the match, they must be employed on October 31st of the respective year. RCHDC reserves the contribution monthly and makes the deposit to the plan in the following fiscal year. Total contributions accumulated for the year ended October 31, 2013 to be deposited to the plan totaled $24,304.

Effective January 1, 2013, RCHDC established a 401(k) plan that covers all employees who meet certain eligibility requirements. RCHDC, on a discretionary basis, may choose to match at the end of the plan year.

Note 11. Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at October 31, 2013:

Fair market value of land of $135,000 purchased from the County of Lake for $1 for use by Bevins Court Housing Corporation. The land is restricted for affordable housing in Lake County for a period of 40 years from the date of grant.	$ 135,000
Crescent City granted to RCHDC $70,000 and $85,000 during the years ended October 31, 2006 and 2008, respectively to be used for rehabilitation of three low income housing apartments in Crescent City, California. The housing projects must remain affordable for 55 years from the dates of the grants.	155,000
Revolving Development fund (Fund 21) grant liens	2,924,793
Owned Projects grant liens	3,300,500
Controlled Entities grant liens	6,346,900
Notes receivable with funds obtained from Redevelopment Agency of Mendocino	50,000
Total Temporarily Restricted Net Assets	$ 12,912,193

Note 11. Temporarily Restricted Net Assets – (Continued)

The following is a summary of the grant liens at October 31, 2013:

DEVELOPMENT FUND (FUND 21)

California Department of Housing and Community Development secured by deed of trust on the Lake Mendocino Drive property. The note is in the amount of $560,000 originally due November 30, 2009. The note has been extended to November 30, 2013, or upon permanent financing or upon transfer of any property security note: whichever is first. The note bears interest at 3% until forgiven incrementally as individual lots are sold. RCHDC pays $18,667 toward principal per lot sold. The note converts to a grant upon sale of lots to families. As of October 31, 2013 accrued interest totaled $54,112.	$ 149,333
California Department of Housing and Community Development, CalHOME predevelopment loans secured by deed of trust on the Lake Mendocino Drive property. The notes are in the amount of $427,500 at 0% interest due June 28, 2015, as amended. The notes have been extended to lot sale dates. The notes convert to grants upon sale of lots to families.	90,053
Housing Assistance Council notes in the aggregate amount of $1,493,647 on Lake Mendocino Drive Self-Help property at interest rates of 0% and 5% with a range of maturity dates. Notes are forgiven incrementally as individual lots are sold. The notes are secured by the properties. As of October 31, 2013, accrued interest totaled $240,232.	1,343,647
Redevelopment Agency, County of Mendocino $100,000 note dated January 20, 2009. Note bears interest at 1% until forgiven incrementally as individual lots are sold. This note is secured by the property.	50,000
County of Mendocino loan sponsored by Community Development Commission in the amount of $496,000 which is forgiven incrementally as individual lots are sold. This note is secured by the property.	217,888
Lake County Redevelopment Agency note dated November 1, 2004, not to exceed $250,000, secured by deed of trust on Collier Street property. Note balance increased by $998,000 in 2009 to maximum balance of $1,248,000. The note accrues simple interest at 2%. No payments or interest are due as long as the maker is not in default of an affordable housing covenant. After 10 years and each succeeding 5 years, 10% of the principal shall be reduced until the end of the 55 year term of the note. As of October 31, 2013, accrued interest totaled $61,382.	626,872
Ukiah Redevelopment Agency loan of $447,000, dated April 1, 2011. The loan is unsecured and non-interest bearing. No payments are due provided RCHDC has remained in continuous compliance with the Regulatory Agreement.	447,000
	$ 2,924,793

Note 11. Temporarily Restricted Net Assets – (Continued)

OWNED PROJECTS

Gibson Court 4 is financed with an Affordable Housing Program Direct Subsidy. The Agreement requires no payments or interest as long as the Project remains affordable for households with income at or below 50% of average median income. Provided the Project remains in compliance with the AHP conditions for the term of the lien, then repayment of these funds is not required. This note is secured by the apartment project.	$ 20,000
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
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
	$ 3,300,500

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

Note 11. Temporarily Restricted Net Assets – (Continued)

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

Note 11. Temporarily Restricted Net Assets – (Continued)

Washington Court is financed with a $55,000 Affordable Housing Program Direct Subsidy. The Agreement requires no payments of principal or interest as long as the Project remains affordable for households with income at or below 50% of average median income. The note payable is secured by the apartment project.	55,000
Washington Court is also financed with a Capital Advance Mortgage note in the amount of $924,000 with HUD under Section 202 of the National Housing Act of 1959. The capital advance bears no interest and will not be repaid to HUD as long as the Project remains available to qualifying low income persons for a period of 40 years. If the Project becomes non-compliant within the term, the advance becomes immediately due and payable. The note is secured by the apartment project.	924,000
Lenore Street is financed with a $60,000 Affordable Housing Program Direct Subsidy. The agreement requires no payments of principal or interest as long as the Project remains affordable for households with income at or below 50% of average median income. The note payable is secured by the apartment project.	60,000
Lenore Street is also financed with a Capital Advance Mortgage note of $835,800 with HUD under Section 202 of the National Housing Act of 1959. The mortgage note bears no interest and repayment is not required as long as the housing remains available for low-income seniors. The note matures March 15, 2041 and may not be prepaid without prior written approval of HUD. Provided that the Project remains available for low-income seniors until the maturity date, and WSHC has not defaulted under the terms of the note, Mortgage or Regulatory Agreement, HUD will deem the note paid in full at the maturity date. The note payable is secured by the apartment project.	835,800
	$ 6,346,900

Note 12. Permanently Restricted Net Assets

Permanently restricted net assets at October 31, 2013 have been restricted for the following purpose:

Self-Help notes receivable and cash	$ 995,572
Notes receivable	150,000
Fixed assets	809,000
Advances to or investment in affiliates	269,800
Development costs	400,000
Total Permanently Restricted Net Assets	$ 2,624,372

Note 13. Business Conditions – Holly Heights II

In August 2012, RCHDC received notification that the Holly Heights II's (Project) tenant assistance contract with California Rental Housing Construction Program ("CRHCP") was running out of funding and the program for the Project would be terminated effective December 31, 2013. This rental assistance provides assistance for 87.5% of the units and for the year ended October 31, 2013 represented 60.7% of rental income. On October 24, 2013, the Project received notification that CRHCP is working with parties for alternative subsidies. However, specific details as to the source or dollar amount of tenant assistance has not been communicated. Without the implementation of a viable plan to make up for the loss of the CRHCP Subsidy, it is unlikely that this project will be able to operate as a going concern.

Note 14. Tax Exempt Notices

Subsequent to the year ended October 31, 2012, RCHDC obtained notices for six of its controlled entities from the IRS stating that these entities had lost their tax-exempt status due to failure to file proper tax returns. These entities have been included in the consolidated tax-exempt tax return for RCHDC, which includes its funds, owned projects and certain of its controlled entities that are organized as tax-exempt entities. Subsequent to year end, RCHDC received notices from the IRS that all six entities tax exempt status was retroactively reinstated to the date of revocation.

Note 15. Fair Value Measurements

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

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

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, 2013, 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 eventful 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 at October 31, 2013:

	Total	Level 1	Level 2	Level 3
Land held for development and developments costs	$ 7,655,951	$ -	$ -	$ 7,655,951

The following summarizes the activity for Level 3 investments for the year ended October 31, 2013:

Balance, Beginning of Year	$ 7,393,684
Total net gains (losses) included in:	
Change in Net Assets	(68,345)
Purchases, sales, issuances and settlements, net	330,612
Balance, End of Year	$ 7,655,951

Note 16. Current Concentration Due to Certain Conditions

RCHDC, through its Funds, Owned Properties and Controlled Entities, operations are concentrated in the low cost 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.

SUPPLEMENTARY INFORMATION

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATING SCHEDULE of FINANCIAL POSITION
October 31, 2013

ASSETS	Funds	Owned Projects	Controlled Entities	Consolidating Entries	Totals
Current Assets:					
Cash and cash equivalents	$ 3,075,138	$ 399,366	$ 200,362	$ -	$ 3,674,866
Net tenant accounts receivable	-	8,099	7,830	-	15,929
Tenant assistance accounts receivable	-	350	5,001	-	5,351
Other accounts receivable	57,079	-	-	-	57,079
Due from owned projects	516,567	404	61,113	(578,084)	-
Due from controlled entities	233,502	-	-	(233,502)	-
Due from related parties	585,531	-	459,860	-	1,045,391
Prepaid expenses	212,096	11,934	63,591	-	287,621
Total Current Assets	4,679,913	420,153	797,757	(811,586)	5,086,237
Deposits:					
Tenant deposits held in trust	-	54,227	131,396	-	185,623
Amounts held for self-help families	1,300	-	-	-	1,300
Tax and insurance impounds	-	50,818	90,237	-	141,055
Replacement reserves	115,083	585,625	2,516,383	-	3,217,091
Other required reserves	-	228,568	484,810	-	713,378
Residual receipts reserves	-	5,278	498,735	-	504,013
Escrow deposit for loan closing	830,000	-	-	-	830,000
Cash restricted for pension plan	24,304	-	-	-	24,304
Cash restricted for self-insurance plan	61,744	-	-	-	61,744
Total Deposits	1,032,431	924,516	3,721,561	-	5,678,508
Fixed Assets, net of Accumulated Depreciation	803,153	13,687,865	14,165,253	-	28,656,271
Other Assets:					
Long-term notes receivable	2,041,656	-	-	-	2,041,656
Developer notes receivable	1,001,688	-	608,476	-	1,610,164
Loan costs, net	-	-	218,372	-	218,372
Advances and investments in consolidated affiliates	128,000	-	332,937	(460,937)	-
Notes receivable from consolidated affiliates	4,153,000	-	-	(4,153,000)	-
Advances and investment in nonconsolidated affiliates	169,200	-	243,385	-	412,585
Land held for development	2,191,661	-	-	-	2,191,661
Development costs	5,431,853	32,437	-	-	5,464,290
Total Other Assets	15,117,058	32,437	1,403,170	(4,613,937)	11,938,728
Total Assets	$ 21,632,555	$ 15,064,971	$ 20,087,741	$ (5,425,523)	$ 51,359,744

See Independent Auditors’ Report.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATING SCHEDULE of FINANCIAL POSITION – Continued
October 31, 2013

LIABILITIES & NET ASSETS (DEFICIT)	**Funds**	**Projects**	**Entities**	**Entries**	**Totals**
Current Liabilities:					
Accounts payable and accrued liabilities	$ 469,595	$ 79,560	114,012	$ -	$ 663,167
Residual receipts liablity	-	-	301,735	-	301,735
Accrued interest payable	2,476	17,726	64,131	-	84,333
Due to funds	-	371,355	354,118	(725,473)	-
Due to controlled properties	25,000	61,113	-	(86,113)	-
Due to related parties	-	22,076	-	-	22,076
Current portion mortgages and notes payable	1,062,925	1,115,275	215,028	-	2,393,228
Deferred revenue	20,000	6,234	2,944	-	29,178
Total Current Liabilities	1,579,996	1,673,339	1,051,968	(811,586)	3,493,717
Long-Term Liabilities:					
Tenant deposits held in trust	-	56,243	131,396	-	187,639
Amounts held for self-help families	1,300	-	-	-	1,300
Accrued interest payable	703,415	1,305,661	590,246	-	2,599,322
Mortgages and notes payable, net	4,178,570	10,915,510	18,969,734	(4,153,000)	29,910,814
Total Long-Term Liabilities	4,883,285	12,277,414	19,691,376	(4,153,000)	32,699,075
Total Liabilities	6,463,281	13,950,753	20,743,344	(4,964,586)	36,192,792
Net Assets (Deficit):					
Unrestricted (Deficit)	10,055,609	(2,442,782)	(7,521,503)	(460,937)	(369,613)
Temporarily restricted	3,129,793	3,300,500	6,481,900	-	12,912,193
Permanently restricted	1,983,872	256,500	384,000	-	2,624,372
Total Net Assets (Deficit)	15,169,274	1,114,218	(655,603)	(460,937)	15,166,952
Total Liabilities & Net Asset (Deficit)	$ 21,632,555	$ 15,064,971	$ 20,087,741	$ (5,425,523)	$ 51,359,744

See Independent Auditors' Report.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATING SCHEDULE of ACTIVITIES and CHANGES in NET ASSETS (DEFICIT)
Year ended October 31, 2013

REVENUES	Funds	Owned Projects	Controlled Entities	Consolidating Entries	Totals
Net tenant rents	$ -	547,488	1,399,932	$ -	$ 1,947,420
Tenant assistance payments	-	1,300,136	1,995,046	-	3,295,182
Other rents	105,053	-	238,409	-	343,462
Grant income	282,050	-	-	-	282,050
Interest income	228,005	728	1,075	-	229,808
Management fees and reimbursements	783,626	-	77,319	(515,545)	345,400
Operational revenue	147,645	7,469	21,042	-	176,156
Other revenue	32,612	15,963	612,628	-	661,203
Total Revenues	1,578,991	1,871,784	4,345,451	(515,545)	7,280,681
EXPENSES					
Administrative services	1,095,526	262,769	534,896	-	1,893,191
Management fees	29,564	132,252	307,618	(469,434)	-
Bookkeeping and accounting fees	-	6,960	39,151	(46,111)	-
Utilities	-	216,871	518,675	-	735,546
Operating and maintenance:					
Operating expenses	120,452	271,724	603,305	-	995,481
Replacement reserve & residual receipts accounts	-	56,031	404,016	-	460,047
Taxes and insurance	283,092	180,167	319,135	-	782,394
Interest expense	34,383	456,356	972,738	-	1,463,477
Unrealized loss on land development & notes receivable	75,579	-	-	-	75,579
Depreciation and amortization	43,748	529,191	630,713	-	1,203,652
Total Expenses	1,682,344	2,112,321	4,330,247	(515,545)	7,609,367
Change in Net Assets (Deficit)	(103,353)	(240,537)	15,204	-	(328,686)
Transfer of assets from owned to funds	162,685	(162,685)	-	-	-
Net Assets (Deficit), Beginning	15,109,942	1,517,440	(670,807)	(460,937)	15,495,638
Net Assets (Deficit), Ending	$ 15,169,274	$ 1,114,218	$ (655,603)	$ (460,937)	$ 15,166,952

See Independent Auditors' Report.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATING SCHEDULE of CASH FLOWS
Year ended October 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	Funds	Owned Projects	Controlled Entities	Consolidating Entries	Total
Change in Total Net Assets from Operations	$ (103,353)	$ (240,537)	$ 15,204	$ -	$ (328,686)
Adjustments to Reconcile Changes in Net Asset to Net cash Provided by Operating Activities:					
Net present value of notes receivable	(18,656)	-	-	-	(18,656)
Increase in long-term accrued interest	(65,940)	139,926	110,112	-	184,098
Depreciation and amortization	43,748	529,191	630,713	-	1,203,652
Unrealized loss on land development & notes receivable	75,579	-	-	-	75,579
Allowance for doubtful accounts	(149,518)	-	-	-	(149,518)
Decrease (Increase) in:					
Net tenant accounts receivable	-	(3,068)	5,457	-	2,389
Tenant assistance accounts receivable	-	7,942	(4,401)	-	3,541
Other accounts receivable	(45,018)	14,235		-	(30,783)
Due from funds	-	-	15,838	(15,838)	-
Due from owned properties	86,709	(404)	(61,113)	(25,192)	-
Due from controlled entities	(36,784)	199,812		(163,028)	-
Prepaid expenses	(160,292)	(9,423)	(59,817)	-	(229,532)
Increase (Decrease) in:					
Accounts payable and accrued liabilities	15,770	53,127	66,154	-	135,051
Residual receipts liability	-	-	301,735	-	301,735
Accrued interest payable	2,476	(1,076)	29,371	-	30,771
Due to funds	-	(283,582)	226,730	56,852	-
Due to owned properties	(52)	-	(69,826)	69,878	-
Due to controlled entities	25,000	61,113	(163,441)	77,328	-
Deferred revenue	(2,587)	4,187	(1,527)	-	73
Net Cash Provided by Operating Activities	(332,918)	471,443	1,041,189	-	1,179,714
CASH FLOWS FROM INVESTING ACTIVITIES					
Decrease (Increase) in:					
Tenant deposits held in trust	-	1	(6,703)	-	(6,702)
Cash restricted for loan closing	(10,000)	-	-	-	(10,000)
Tax and insurance impounds	-	2,657	3,381	-	6,038
Replacement reserve	34,917	(15,006)	(112,954)	-	(93,043)
Other reserves	-	(8)	81,806	-	81,798
Residual receipts reserve	-	4,117	68,425	-	72,542
Cash restricted for pension plan	(10,621)	-	-	-	(10,621)
Cash restricted for self-insurance plan	(8,646)	-	-	-	(8,646)
Purchase of fixed assets	(72,782)	(135,324)	(40,978)	-	(249,084)
Decrease (Increase) in due from related parties	(2,030)	22,076	-	-	20,046
Increase in long-term notes receivable	15,634	-	-	-	15,634
Developer notes receivable	61,758	-	(608,476)	-	(546,718)
Development costs	(330,612)	(7,234)	-	-	(337,846)
Net Cash Provided by (Used in) Investing Activities	(322,382)	(128,721)	(615,499)	-	(1,066,602)

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATING SCHEDULE of CASH FLOWS – Continued
Year ended October 31, 2013

CASH FLOWS FROM FINANCING ACTIVITIES	Funds	Owned Projects	Controlled Entities	Consolidating Entries	Total
Loan costs	$ -	$ -	$ (17,384)	$ -	$ (17,384)
Increase (Decrease) in due to related parties	397,422	50,305	(190,459)	-	257,268
Principal payments on mortgages and notes payable	(131,175)	(300,369)	(224,384)	-	(655,928)
Net Cash Provided by (Used in) Financing Activities	266,247	(250,064)	(432,227)	-	(416,044)
Net Increase (Decrease) in Cash and Cash Equivalents	(389,053)	92,658	(6,537)	-	(302,932)
Cash and Cash Equivalents, Beginning	3,464,191	306,708	206,899	-	3,977,798
Cash and Cash Equivalents, Ending	$ 3,075,138	$ 399,366	$ 200,362	$ -	$ 3,674,866
SUPPLEMENTAL DISCLOSURES					
Amounts Paid for Interest	$ 27,356	$ 317,506	$ 549,972	$ -	$ 894,834
Amounts Paid for Income Tax	$ -	$ -	$ -	$ -	$ -
NON CASH INVESTING AND FINANCING ACTIVITIES					
Capitalized accrued interest payable	$ 123,212	$ -	$ -	$ -	$ 123,212
Transfer of assets from owned to funds	$ 162,685	$ (162,685)	$ -	$ -	$ -

See Independent Auditors' Report.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATING FUND SCHEDULE OF FINANCIAL POSITION
October 31, 2013

	Funds							Consolidating	
ASSETS	**10**	**20**	**21**	**22**	**23**	**70**	**90**	**Entries**	**Totals**
Current Assets:									
Cash and cash equivalents	$ -	$ 4,853	$ 2,217,859	$ 852,426	$ -	$ -	$ -	$ -	$ 3,075,138
Other accounts receivable	-	57,079	-	-	-	-	-	-	57,079
Due from funds	-	29,744	2,755,469	1,589,784	-	-	-	(4,374,997)	-
Due from owned projects	-	52,361	457,014	7,192	-	-	-	-	516,567
Due from controlled entities	-	194,496	32,559	6,447	-	-	-	-	233,502
Due from related parties	-	92,889	473,096	19,546	-	-	-	-	585,531
Prepaid expenses	-	201,337	2,649	3,736	-	4,374	-	-	212,096
Total Current Assets	-	632,759	5,938,646	2,479,131	-	4,374	-	(4,374,997)	4,679,913
Deposits:									
Amounts held for self-help families	-	-	-	-	-	-	1,300	-	1,300
Replacement reserves	-	115,083	-	-	-	-	-	-	115,083
Escrow deposit for loan closing	-	-	830,000	-	-	-	-	-	830,000
Cash restricted for pension plan	-	24,304	-	-	-	-	-	-	24,304
Cash restricted for self-insurance plan	-	61,744	-	-	-	-	-	-	61,744
Total Deposits	-	201,131	830,000	-	-	-	1,300	-	1,032,431
Fixed Assets, net of Accumulated Depreciation	-	803,153	-	-	-	-	-	-	803,153
Other Assets:									
Long-term notes receivable	-	-	2,041,656	-	-	-	-	-	2,041,656
Developer notes receivable	-	-	1,001,688	-	-	-	-	-	1,001,688
Advance to consolidated affiliates	-	128,000	-	-	-	-	-	-	128,000
Notes receivable from consolidated affiliates	-	-	4,153,000	-	-	-	-	-	4,153,000
Advance to nonconsolidated affiliate	-	169,200	-	-	-	-	-	-	169,200
Land held for development	-	-	2,191,661	-	-	-	-	-	2,191,661
Development costs	-	-	5,431,853	-	-	-	-	-	5,431,853
Total Other Assets	-	297,200	14,819,858	-	-	-	-	-	15,117,058
Total Assets	$ -	$ 1,934,243	$ 21,588,504	$ 2,479,131	$ -	$ 4,374	$ 1,300	$ (4,374,997)	$ 21,632,555
LIABILITIES & NET ASSETS (DEFICIT)									
Current Liabilities:									
Accounts payable and accrued liabilities	$ -	$ 277,946	$ 171,465	$ 14,071	$ -	$ 6,113	$ -	$ -	$ 469,595
Accrued interest payable	-	2,476	-	-	-	-	-	-	2,476
Due to funds	-	3,433,680	8,910	9,339	-	923,068	-	(4,374,997)	-
Due to controlled entities	-	-	25,000	-	-	-	-	-	25,000
Current portion mortgages and notes payable	-	10,267	1,052,658	-	-	-	-	-	1,062,925
Deferred revenue	-	-	20,000	-	-	-	-	-	20,000
Total Current Liabilities	-	3,724,369	1,278,033	23,410	-	929,181	-	(4,374,997)	1,579,996
Long-Term Liabilities									
Amounts held for self-help families	-	-	-	-	-	-	1,300	-	1,300
Accrued interest payable	-		703,415	-	-	-	-	-	703,415
Mortgages and notes payable	-	668,980	3,509,590	-	-	-	-	-	4,178,570
Total Long-Term Liabilities	-	668,980	4,213,005	-	-	-	1,300	-	4,883,285
Total Liabilities	-	4,393,349	5,491,038	23,410	-	929,181	1,300	(4,374,997)	6,463,281
Net Assets (Deficit):									
Unrestricted	-	(2,653,906)	11,178,601	2,455,721	-	(924,807)	-	-	10,055,609
Temporarily restricted	-	-	3,129,793	-	-	-	-	-	3,129,793
Permanently restricted	-	194,800	1,789,072	-	-	-	-	-	1,983,872
Total Net Assets (Deficit)	-	(2,459,106)	16,097,466	2,455,721	-	(924,807)	-	-	15,169,274
Total Liabilities & Net Assets (Deficit)	$ -	$ 1,934,243	$ 21,588,504	$ 2,479,131	$ -	$ 4,374	$ 1,300	$ (4,374,997)	$ 21,632,555

See Independent Auditors' Report.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATING FUND SCHEDULE of ACTIVITIES and CHANGES in NET ASSETS (DEFICIT)
Year ended October 31, 2013

	Funds							Consolidating	
REVENUES	10	20	21	22	23	70	90	Entries	Totals
Other rents	$ -	$ 105,053	$ -	$ -	$ -	$ -	$ -	$ -	$ 105,053
Grant income	-	87,050	175,000	-	-	20,000	-	-	282,050
Interest income	-	26,163	201,842	-	-	-	-	-	228,005
Management fees and reimbursements	-	49,932	-	733,694	-	-	-	-	783,626
Operational revenue	-	84,075	63,000	-	-	570	-	-	147,645
Other revenue	-	7,414	25,146	52	-	-	-	-	32,612
Total Revenues	-	359,687	464,988	733,746	-	20,570	-	-	1,578,991
EXPENSES									
Administrative services	-	590,678	134,720	311,679	-	58,449	-	-	1,095,526
Utilities	-	29,462	-	-	-	102	-	-	29,564
Operating and maintenance:									
Operating expenses	-	43,021	56,858	124	-	20,449	-	-	120,452
Taxes and insurance	-	115,457	45,414	72,386	-	49,835	-	-	283,092
Interest expense	-	29,832	4,551	-	-	-	-	-	34,383
Unrealized loss on land development & notes receivable	-	-	75,579	-	-	-	-	-	75,579
Depreciation and amortization	-	43,748	-	-	-	-	-	-	43,748
Total Expenses	-	852,198	317,122	384,189	-	128,835	-	-	1,682,344
Change in Net Assets (Deficit)	-	(492,511)	147,866	349,557	-	(108,265)	-	-	(103,353)
Transfer funds from 10 to other funds	(540,375)	401,388	138,987	-	-	-	-	-	-
Transfer funds from 23 to 70	-	-	-	-	219,806	(219,806)	-	-	-
Transfer assets from owed to funds	-	29,970	132,715	-	-	-	-	-	162,685
Net Asset (Deficit), Beginning	540,375	(2,397,953)	15,677,898	2,106,164	(219,806)	(596,736)	-	-	15,109,942
Net Assets (Deficit), Ending	$ -	$ (2,459,106)	$ 16,097,466	$ 2,455,721	$ -	$ (924,807)	$ -	$ -	$ 15,169,274

See Independent Auditors' Report.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATING FUND SCHEDULE of CASH FLOWS
Year ended October 31, 2013

	Funds							Consolidating	
CASH FLOWS FROM OPERATING ACTIVITIES	**10**	**20**	**21**	**22**	**23**	**70**	**90**	**Entries**	**Totals**
Change in Total Net Assets from Operations	$ -	$ (492,511)	$ 147,866	$ 349,557	$ -	$(108,265)	$ -	$ -	$ (103,353)
Adjustments to Reconcile Changes in Net Asset to Net cash Provided by (Used in) Operating Activities:									
Net present value of notes receivable	-	-	(18,656)	-	-	-	-	-	(18,656)
Increase in long-term accrued interest, net	-	-	(65,940)	-	-	-	-	-	(65,940)
Depreciation and amortization	-	43,748	-	-	-	-	-	-	43,748
Unrealized loss on land development & notes receivable	-	-	75,579	-	-	-	-	-	75,579
Allowance for doubtful accounts	-	-	(149,518)	-	-	-	-	-	(149,518)
Decrease (Increase) in:									
Other accounts receivable	-	(45,018)	-	-	-	-	-	-	(45,018)
Due from funds	-	(14,462)	(688,613)	(196,996)	-	-	-	900,071	-
Due from owned projects	-	30,639	53,808	2,262	-	-	-	-	86,709
Due from controlled entities	-	(35,277)	(1,449)	(58)	-	-	-	-	(36,784)
Prepaid expenses	-	(169,043)	889	(1,767)	-	9,629	-	-	(160,292)
Increase (Decrease) in:									
Accounts payable and accrued liabilities	-	19,617	6,013	(5,977)	-	(3,883)	-	-	15,770
Accrued interest payable	-	2,476	-	-	-	-	-		2,476
Due to funds	-	789,515	7,149	888	-	102,519	-	(900,071)	-
Due to owned properties	-	-	-	(52)	-	-	-	-	(52)
Due to controlled entities	-	-	25,000	-	-	-	-	-	25,000
Deferred revenue	-	(2,587)	-	-	-	-	-	-	(2,587)
Net Cash Provided by (Used in) Operating Activities	-	127,097	(607,872)	147,857	-	-	-	-	(332,918)
CASH FLOWS FROM INVESTING ACTIVITIES									
Decrease (Increase) in:									
Cash resricted for loan closing	-	-	(10,000)	-	-	-	-	-	(10,000)
Replacement reserves	-	34,917	-	-	-	-	-	-	34,917
Cash restricted for pension plan	-	(10,621)	-	-	-	-	-	-	(10,621)
Cash restricted for self-insurance plan	-	(8,646)	-	-	-	-	-	-	(8,646)
Purchase of fixed assets	-	(72,782)	-	-	-	-	-	-	(72,782)
Decrease (Increase) in due from related parties	-		-	(2,030)	-	-	-	-	(2,030)
Long-term notes receivable	-	-	15,634	-	-	-	-	-	15,634
Developer notes receivable	-	-	61,758						61,758
Development costs	-	-	(330,612)	-	-	-	-	-	(330,612)
Net Cash Provided by (Used in) Investing Activities	-	(57,132)	(263,220)	(2,030)	-	-	-	-	(322,382)
CASH FLOWS FROM FINANCING ACTIVITIES									
Increase (Decrease) in due to related parties	-	(60,186)	457,608	-	-	-	-	-	397,422
Principal payments on mortgages, notes payable and grant liens	-	(9,828)	(121,347)	-	-	-	-	-	(131,175)
Net Cash Provided by (Used in) Financing Activities	-	(70,014)	336,261	-	-	-	-	-	266,247
Net Increase (Decrease) in Cash and Cash Equivalents	-	(49)	(534,831)	145,827	-	-	-	-	(389,053)
Cash and Cash Equivalents, Beginning	-	4,902	2,752,690	706,599	-	-	-	-	3,464,191
Cash and Cash Equivalents, Ending	$ -	$ 4,853	$ 2,217,859	$ 852,426	$ -	$ -	$ -	$ -	$ 3,075,138
SUPPLEMENTAL DISCLOSURES									
Amounts Paid for Interest	$ -	$ 27,356	$ -	$ -	$ -	$ -	$ -	$ -	$ 27,356
Amounts Paid for Income Tax	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
NON CASH INVESTING AND FINANCING ACTIVITIES									
Capitalized accrued interest payable	$ -	$ -	$ 123,212	$ -	$ -	$ -	$ -	$ -	$ 123,212
Transfer of Fund 10 Net Assets to Other Funds	$ (540,375)	$ 401,388	$ 138,987	$ -	$ -	$ -	$ -	$ -	$ -
Transfer of Fund 23 to Fund 70 Net Assets	$ -	$ -	$ -	$ -	$ 219,806	$(219,806)	$ -	$ -	$ -
Transfer of Assets from Owned to Funds	$ -	$ 29,970	$ 132,715	$ -	$ -	$ -	$ -	$ -	$ 162,685

See Independent Auditors' Report.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
SCHEDULE of EXPENDITURES of FEDERAL AWARDS
Year ended October 31, 2013

Federal Programs:		Funds	Owned Projects	Controlled Entities	Total
U.S Department of Agriculture:					
Farm Labor Housing Loans and Grants	10.405	$ -	$ 3,382,915	$ -	$ 3,382,915
Rural Rental Housing Loans (Section 515 and 521)	10.415	-	1,976,861	1,722,030	3,698,891
Rural Self-Help Housing Technical Assistance (Section 523)	10.420	-	20,000	-	20,000
Rural Rental Assistance Payments	10.427	-	336,952	46,336	383,288
Community Facilities Loans and Grants	10.766	679,247	-	-	679,247
Total U.S Department of Agriculture		679,247	5,716,728	1,768,366	8,164,341
U.S. Department of Housing and Urban Development:					
Mortgage Insurance For The Purchase or Refinancing of Existing Multifamily Housing Projects (Section 223(f)/207)	14.155	-	-	45,855	45,855
Supportive Housing For the Elderly (Section 202)	14.157	-	970,824	8,028,749	8,999,573
Supportive Housing for Person with Disabilities (Section 811)	14.181	-		1,856,500	1,856,500
Section 8 Housing Assistance Payments Program (Pass-Through Contract Administrator)	14.195	-	881,221	1,987,063	2,868,284
Home Investment Partnership Program (HOME) (Pass-Through California Department of Housing & Community Dev)	14.239	100,000	4,767,779	3,949,101	8,816,880
Self Help Homeownership Opportunity Program	14.247	472,888	-	-	472,888
Total U.S. Department of Housing and Urban Development		572,888	6,619,824	15,867,268	23,059,980
NeighborWorks America:					
Expendable Grants	21.000	87,050	-	-	87,050
Permanently Restricted Capital Grants	21.000	175,000	-	-	175,000
Capital Loan	21.000	410,000	-	-	410,000
Total NeighborWorks America		672,050	-	-	672,050
TOTAL FEDERAL AWARDS EXPENDED		$ 1,924,185	$ 12,336,552	$ 17,635,634	$ 31,896,371

Note 1. Basis of Presentation

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

See Independent Auditors' Report.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America, the financial statements of Rural Communities Housing Development Corporation and Affiliates, which comprise the statement of financial position as of October 31, 2013, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 29, 2014.

Internal Control over Financial Reporting

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

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

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

4449 easton way, ste. 400
columbus, oh 43219

www.cshco.com
p. 614.885.2208
f. 614.885.8159

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Communities Housing Development Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Clark, Schaefer, Hackett & Co.

Columbus, Ohio
April 29, 2014

CLARK SCHAEFER HACKETT
STRENGTH IN NUMBERS

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

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

Report on Compliance for Each Major Federal Program

We have audited Rural Communities Housing Development Corporation and Affiliates' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Rural Communities Housing Development Corporation and Affiliates' major federal programs for the year ended October 31, 2013. Rural Communities Housing Development Corporation and Affiliates' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

4449 easton way, ste. 400
columbus, oh 43219

www.cshco.com
p. 614.885.2208
f. 614.885.8159

Opinion on Each Major Federal Program

In our opinion, Rural Communities Housing Development Corporation and Affiliates complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended October 31, 2013.

Report on Internal Control Over Compliance

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

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

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

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

Clark, Schaefer, Hackett & Co.

Columbus, Ohio
April 29, 2014

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year ended October 31, 2013

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

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

Identification of major program

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

Dollar threshold used to distinguish between Type A and Type B programs:	$956,891			
Auditee qualified as low-risk auditee?		Yes	X	No

SECTION II - FINANCIAL STATEMENT FINDINGS

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

SECTION III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year ended October 31, 2013

Finding / Recommendation	Current Status	Project Explanation If Not Implemented

No unresolved findings from prior year.