

RURAL COMMUNITIES
HOUSING DEVELOPMENT CORPORATION

ANNUAL FINANCIAL REPORT

OCTOBER 31, 2007

ROBERTSON & ASSOCIATES, CPAs
A Professional Corporation

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
ORGANIZATION
OCTOBER 31, 2007

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

BOARD MEMBERS

Name	Date Seated	Term Expires
Ron Caviglia, President	February 24, 1998	November 2009
Andrew Peterson, Vice President	October 30, 2006	November 2007
Rowland Mosser, Treasurer *	February 7, 2005	November 2007
Roberto Muniz, Secretary	March 31, 2003	November 2009
Cindy Silva	March 11, 2005	November 2009
Dan Gill	October 31, 2005	November 2009
William Thompson	March 11, 2005	November 2009
Camille Schraeder	April 30, 2007	November 2007
Marcia Williams	February 24, 1998	November 2007
Kathleen Stone	September 5, 2006	November 2007
Holly Madrigal	September 5, 2006	November 2007
Catherine Elias-Jermany	January 28, 2002	November 2009

* Rowland Mosser resigned as of June 30, 2008.

Ron Caviglia was appointed Treasurer at that time in his place.

ADMINISTRATION

Duane Hill - Executive Director **

Lois Goforth - Fiscal Officer

** Duane Hill retired on May 8, 2008. Bruce Alfano became the Chief Executive Officer.

ADDRESS OF CORPORATE OFFICE

499 Leslie Street
Ukiah, California 95482

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Communities Housing Development Corporation
Ukiah, California

We have audited the accompanying consolidated statement of financial position of Rural Communities Housing Development Corporation (a nonprofit organization) and its affiliates (see Note 1) as of October 31, 2007, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rural Communities Housing Development Corporation and its affiliates as of October 31, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2008, on our consideration of Rural Communities Housing Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Rural Communities Housing Development Corporation and its affiliates taken as a whole. The supplemental information (shown on pages 28 through 34) is presented for purposes of additional analysis and is not a required part of the financial statements of the Organization. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Robinson & Associates, CPAs

Lakeport, California

October 24, 2008

FINANCIAL SECTION

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2007

ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Current Assets:				
Cash and cash equivalents	\$ 1,633,246	\$ -	\$ 312,394	\$ 1,945,640
Net tenant accounts receivable	6,870	-	-	6,870
Tenant assistance accounts receivable	24,682	-	-	24,682
Other accounts receivable	6,327	-	-	6,327
Due from related parties	974,628	-	-	974,628
Prepaid expenses	153,431	-	-	153,431
Total Current Assets	2,799,184	-	312,394	3,111,578
Deposits:				
Tenant security deposits held in trust	148,237	-	-	148,237
Tax and insurance impounds	256,865	-	-	256,865
Replacement reserve	1,770,578	-	-	1,770,578
Capital investment	16,193	-	-	16,193
Other reserves	648,459	-	-	648,459
Residual receipts reserve	360,783	-	-	360,783
Cash restricted for pension plan	29,705	-	-	29,705
Cash restricted for self-insurance plan	24,751	-	-	24,751
Cash restricted until completion of project	49,974	-	-	49,974
Total Deposits	3,305,545	-	-	3,305,545
Fixed Assets net of Accumulated Depreciation	18,324,442	135,000	426,000	18,885,442
Other Assets:				
Long-term notes receivable	469,899	70,000	263,881	803,780
Investment in general partner entities	147,937	-	-	147,937
Land held for development	4,157,520	-	-	4,157,520
Development costs	12,888,338	-	770,000	13,658,338
Intangibles	5,065	-	-	5,065
Total Other Assets	17,668,759	70,000	1,033,881	18,772,640
Total Assets	\$ 42,097,930	\$ 205,000	\$ 1,772,275	\$ 44,075,205
LIABILITIES AND NET ASSETS (DEFICIT)				
Liabilities:				
Current Liabilities:				
Checks issued in excess of deposits	\$ 798,334	\$ -	\$ -	\$ 798,334
Accounts payable and accrued liabilities	567,603	-	-	567,603
Accrued interest payable	232,681	-	-	232,681
Due to related parties	377,642	-	-	377,642
Current portion mortgages and notes payable	692,979	-	-	692,979
Deferred revenue	29,413	-	-	29,413
Total Current Liabilities	2,698,652	-	-	2,698,652
Long-Term Liabilities:				
Tenant security deposits	157,413	-	-	157,413
Accrued interest payable	473,290	-	-	473,290
Construction contracts payable	1,572,607	-	-	1,572,607
Mortgages and notes payable	36,103,746	-	-	36,103,746
Total Long-Term Liabilities	38,307,056	-	-	38,307,056
Total Liabilities	41,005,708	-	-	41,005,708
Net Assets (Deficit)	1,092,222	205,000	1,772,275	3,069,497
Total Liabilities and Net Assets (Deficit)	\$ 42,097,930	\$ 205,000	\$ 1,772,275	\$ 44,075,205

See accompanying notes and independent auditor's report.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2007

REVENUES	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net tenant rents	\$ 1,470,977	\$ -	\$ -	\$ 1,470,977
Tenant assistance payments	2,737,348	-	-	2,737,348
Other rents	106,054	-	-	106,054
Grant income	349,162	62,000	-	411,162
Interest income	70,118	-	-	70,118
Management fees and reimbursements	216,319	-	-	216,319
Operational revenue	177,654	-	-	177,654
Other revenue	286,403	-	-	286,403
Gain (loss) on sale of development properties	7,844	-	-	7,844
Released from restrictions	62,000	(62,000)	-	-
Total Revenues	5,483,879	-	-	5,483,879
EXPENSES				
Administrative services	1,859,378	-	-	1,859,378
Utilities	407,386	-	-	407,386
Operating and maintenance:				
Operating accounts	1,066,105	-	-	1,066,105
Replacement reserve and residual receipts accounts	247,472	-	-	247,472
Taxes and insurance	540,203	-	-	540,203
Interest expense	1,133,726	-	-	1,133,726
Amortization and depreciation	795,840	-	-	795,840
Total Expenses	6,050,110	-	-	6,050,110
Change In Net Assets	(566,231)	-	-	(566,231)
Net Assets Deficit), Beginning	1,658,453	205,000	1,772,275	3,635,728
Net Assets (Deficit), Ending	<u>\$ 1,092,222</u>	<u>\$ 205,000</u>	<u>\$ 1,772,275</u>	<u>\$ 3,069,497</u>

See accompanying notes and independent auditor's report.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2007

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Total Net Assets from Operations	\$ (566,231)
Adjustments to Reconcile Changes in Net Asset to Net cash Provided by (Used in) Operating Activities:	
Amortization and Depreciation	795,840
Decrease (Increase) in:	
Net tenant accounts receivable	(2,693)
Tenant assistance accounts receivable	(7,297)
Other accounts receivable	41,447
Due from related parties	101,909
Prepaid expenses	(95,556)
Increase (Decrease) in:	
Checks issued in excess of deposits	405,279
Accounts payable and accrued liabilities	138,648
Accrued interest payable	56,247
Due to related parties	67,984
Deferred revenue	(7,011)
Net Cash Provided by (Used in) Operating Activities	928,566

CASH FLOWS FROM INVESTING ACTIVITIES

Decrease (Increase) in:	
Tenant deposits held in trust	8,159
Tax and insurance impounds	(6,431)
Replacement reserve	(6,361)
Capital investment	4,907
Other reserves	(13,275)
Residual receipts reserve	23,561
Cash restricted for pension plan	(2,749)
Cash restricted for self-insurance plan	9,632
Cash restricted until completion of project	(125)
Purchase of fixed assets	(947,155)
Increase in long-term notes receivable	(131,257)
Increase in investment in general partner entities	(32,937)
Increase in development costs	(6,148,173)
Transfer of land held for development	335,000
Intangibles	(7,959)
Net Cash Provided by (Used in) Investing Activities	(6,915,163)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from mortgages and notes payable	4,616,515
Increase in long-term accrued interest	107,165
Increase in construction contracts payable	1,572,607
Principal payments on mortgages and notes payable	(747,757)
Net Cash Provided by (Used in) Financing Activities	5,548,530
Net Increase (Decrease) in Cash and Cash Equivalents	(438,067)
Cash and Cash Equivalents, Beginning	2,383,707
Cash and Cash Equivalents, Ending	\$ 1,945,640
Amounts Paid for Interest	\$ 1,158,647
Amounts Paid for Income Tax	\$ -

See accompanying notes and independent auditor's report.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2007

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Principles of Consolidation

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

These financial statements include Funds 10, 20, 21, 22, 23, 70 and 90 of RCHDC, and its owned and controlled housing projects. The included controlled projects are owned by separate corporations, which share the same board of directors as RCHDC. RCHDC also manages other housing projects with unrelated ownership.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 OCTOBER 31, 2007

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

Rural Communities Housing Development Corporation (RCHDC)

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

RCHDC Owned Projects

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

Controlled Entities

Project

Pine Gardens I, Inc.	Orchard River Associates, L.P.
Redwood Court Property Corporation	Redwood Court Property, A California Limited Partnership
CC Seabreeze, LLC	CC Seabreeze, L.P.
CC Seagull Villa, LLC	CC Seagull Villa, L.P.
Bevins Court Housing Corporation	Bevins Court Apartments
Clearlake Housing Corporation	North Shore Villas
Gibson Court Housing Corporation	Gibson Court Apartments *
Lakeview Housing, Inc.	Lakeview Apartments
Low Gap Housing Corporation	Jack Simpson School View Apartments
North Pine Street Senior Housing Corporation	North Pine Street Apartments
Red Bluff Senior Housing Corporation	Oak Park Manor
Siskiyou Gardens Inc.	Siskiyou Garden Apartments
Washington Court Senior Housing Corporation	Washington Court Apartments
Willits Senior Housing Corporation	Lenore Street Senior Housing

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

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2007

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

Basis of Accounting

RCHDC uses the accrual basis of accounting. Under the accrual basis of accounting revenues are recognized when earned and expenses are recognized when incurred.

Net Asset Classes

Unrestricted Net Assets are those currently available for use of the organization, board, and the resources invested in fixed assets.

Temporarily Restricted Net Assets are those received with donor stipulations that limit the use of the donated assets. When the purpose restrictions are accomplished, these net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Neighborhood Reinvestment Corporation Expendable and Self-Help monies fall within this category.

Permanently Restricted Net Assets are those contributed with donor stipulations that they be held in perpetuity with use of income for unrestricted or temporarily restricted purposes. The Neighborhood Reinvestment Corporation Capital Funds and Cal HOME monies fall within this category.

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 to be spent and the means by which spending activities are controlled. The corporate, administrative, operating and trust funds are grouped into categories as follows:

Corporate Fund (Fund 10)

Assets, such as land, building, computer equipment and other assets, used by RCHDC to manage its other projects and funds are recorded in Fund 10. Sources of revenue for Fund 10 include interest earned on investments and other revenues. Fund 10 is charged for depreciation and the board of directors may designate a portion of the profit from Fund 20 to Fund 10 and Fund 21.

Administrative Fund (Fund 20)

All direct costs of managing projects and Federal grants are charged to Fund 20. Fund 20 charges management fees to both affiliated and unaffiliated projects that are managed, but not directly owned by RCHDC. Fund 20 collects revenue from the rental of assets to its other projects and funds. Fund 20 also receives an indirect cost percentage from each Federal grant it administers.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2007

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

Revolving Development Fund (Fund 21)

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

Property Management Fund (Fund 22)

All direct costs of property management are charged to Fund 22. Fund 22 charges management fees to both affiliated and unaffiliated projects that are managed, but not directly owned by RCHDC.

First Time Home Buyer Fund (Fund 23)

All direct costs associated with the Home Ownership Center are charged to Fund 23. Fund 23 charges a fee to participants in the home ownership classes.

Self-Help Technical Assistance Grant (Fund 70)

Fund 70 administers the USDA and HCD Technical Assistance grant funds to support the self-help families.

Self-Help Construction Trust Fund (Fund 90)

Fund 90 is a trust account and is used to account for the Self-Help construction costs for each family. Costs incurred in excess of budget are either reimbursed by Rural Economic and Community Development Services (RECDS), charged to the individual family responsible for the cost overrun or absorbed by RCHDC.

Property and Equipment

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

Cash and Cash Equivalents

For purposes of the statements of cash flows, RCHDC considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents as of October 31, 2007.

Cash balances in banks are insured up to \$100,000 (temporarily increased to \$250,000 from October 3, 2008 through December 31, 2009) by the Federal Deposit Insurance Corporation (FDIC). As of October 31, 2007, RCHDC's Funds, Owned Projects and Controlled Corporations held cash in banks in excess of amounts insured by the FDIC. The excess funds totaled \$2,860,553. The banks have pledged eligible pooled securities equal to or greater than the uninsured amounts.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2007

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

Grants

RCHDC received various grants to assist its development of various projects and programs. Capital funds and expendable grants are received from NeighborWorks America, with whom RCHDC is an affiliate. These funds are used to assist with the development of housing projects, improved management and program planning. The NeighborWorks America grant receipts and expenditures are reported in the supplementary information.

Development Costs

Development costs are recorded on a site-specific basis. Development costs include all expenditures necessary to complete a project including land, escrow closing costs, interest, legal, survey and engineering. Development costs are capitalized for reporting purposes.

Income Taxes

RCHDC and its controlled corporations are exempt from Federal and California income taxes because they are organized as a not-for-profit corporations and are exempt under Federal and California Code Sections 501(c)(3) and 23701(d), respectively.

Estimates

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

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2007

NOTE 2 NOTES RECEIVABLE

In assisting eligible individuals to become owners of affordable housing, RCHDC has provided assistance in the form of purchase money loans, which are secured by junior deeds of trust on the homeowner's property. Terms vary, but generally fall into one of the following categories:

Fund 21:

1. Loans are for a period of 30 years accruing interest at 4% and do not require repayment until the term expires or the homeowner disposes of the property.
2. Loans are for a period of 30 years accruing interest at 4% to 5%. 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.
3. Fund 21 has \$70,000 of notes receivable due from CC Seabreeze, L.P. The funds were loaned for the rehabilitation of two low income housing apartments in Crescent City. The loans do not accrue interest and are due on May 31, 2066. CC Seabreeze, L.P. is a related party to RCHDC; RCHDC and the general partners share a common board of directors.

Fund 10:

1. Loans with 30 year terms were made to homeowners from Fund 10. The loans do not accrue interest during the first ten years and accrue 3% simple interest for the next five years. 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.
2. Loans aggregating \$247,731 at October 31, 2007, with 30 year terms were made to homeowners from Fund 10. The terms also involve the sharing of appreciation in the affordable housing. The loans do not accrue interest, and 5% of the original principal balance and shared appreciation is forgiven annually after the tenth year until no principal or shared appreciation remains due, as long as the homeowner complies with the terms of the loan.

RCHDC's policy is to provide a valuation allowance equal to the note value on these notes since the present value of the notes cannot be readily determined.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 OCTOBER 31, 2007

NOTE 3. FIXED ASSETS

Fixed assets, net of accumulated depreciation, consisted of the following at October 31, 2007:

	Beginning Balance	Additions	Deductions	Ending Balance
Land and Improvements	\$ 3,357,255	\$ 25,855	\$ -	\$ 3,383,110
Building and Improvements	25,646,154	886,265	-	26,532,419
Office Furniture and Equipment	897,654	35,032	-	932,686
Total Fixed Assets	29,901,063	947,152	-	30,848,215
Accumulated Depreciation	(11,169,829)	(792,944)	-	(11,962,773)
Total Fixed Assets, Net	<u>\$ 18,731,234</u>	<u>\$ 154,208</u>	<u>\$ -</u>	<u>\$ 18,885,442</u>

NOTE 4. CONSTRUCTION CONTRACTS PAYABLE

Construction contracts payable of \$1,572,607 relate to Oak Hill Farmworker's Apartments in Kelseyville. The Apartments were completed November 2007. As of the date of this report, permanent financing has been secured and this liability has been paid in full.

NOTE 5. LONG-TERM DEBT

Long-term debt consists of the following at October 31, 2007:

	Current	Long-Term	Total
Corporate Fund (Fund 10)			
United States Department of Agriculture, Rural Development Mortgage for \$750,000 at 4.375% annual interest secured by the Leslie Street property. Payments of principal and interest of \$3,315 monthly for forty years, due May 18, 2044.	\$ 8,253	\$ 716,114	\$ 724,367

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2007

NOTE 5. LONG-TERM DEBT (Continued)

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
Revolving Development Fund (Fund 21)			
Redevelopment Agency, City of Ukiah - annual payment of \$500, payable through September 1, 2032. This note is unsecured and is non-interest bearing.	\$ 500	\$ 22,000	\$ 22,500
Redevelopment Agency, City of Ukiah - to be repaid when primary financing is obtained. This note is non-interest bearing.	-	18,000	18,000
City of Ukiah - due on December 31, 1999, including interest at 3%. This note has been extended by the city until called.	-	115,200	115,200
Redevelopment Agency, City of Ukiah - due on September 26, 1999, including interest at 3%. This note has been extended by the city until called.	-	36,500	36,500
California Department of Housing and Community Development (HCD) - Gibson Street, Due 7/21/2032 Contract #98-HOME-0237, 7% interest.	-	37,941	37,941
Affordable Housing Program Direct Subsidy. The Agreement allows for no payments or interest as long as the Oak Hill Apartments remain affordable to below median income agricultural workers and their families.	-	292,500	292,500
California Department of Housing and Community Development Promissory Note for \$3,442,000. The note accrues 3% simple interest and is due and payable January 30, 2057. Additional payments must be made from residual receipts as required by the Department under the terms of the Regulatory Agreement.	-	3,262,452	3,262,452
United States Department of Agriculture Rural Development Promissory Notes in the total amount of \$3,600,000 secured by deeds of trust on the Oak Hill Apartments. The notes, dated October 28, 2004, bear interest at the rate of 1%. Principle and interest payments of \$11,304 shall be made monthly. All amounts are due and payable by October 1, 2037. Funds were first drawn on these notes during the fiscal year ended October 31, 2006. The notes were fully funded as of November 5, 2007.	92,165	3,377,744	3,469,909
California Department of Housing and Community Development, Joe Serna Jr. Farmworker Housing Grant Program promissory note dated March 26, 2001 for \$2,250,030; secured by deed of trust for a term of 40 years from the date of initial occupancy by eligible households. No repayment is due as long as the terms of the agreement are met.	-	2,250,030	2,250,030
California Department of Housing and Community Development predevelopment loan secured by deed of trust on the Lake Mendocino Drive land. The note is in the amount of \$560,000 at 3% due March 1, 2004 has been extended to lot sale dates.	106,207	453,793	560,000

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2007

NOTE 5. LONG-TERM DEBT (Continued)

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
California Department of Housing and Community Development, CalHOME predevelopment loan secured by deed of trust on the Lake Mendocino Drive land. The note is in the amount of \$277,500 at 0% interest due February 25, 2005 has been extended to lot sale dates. The note converts to a grant at sale of lots when passed to families.	\$ 52,629	\$ 224,871	\$ 277,500
California Department of Housing and Community Development - N. State Street Self-Help loan of \$800,000 (Contract #03-PDL-34), due June 30, 2008, bearing 3% interest. This note is secured by a deed of trust and assignments of professional products. The note has been extended.	-	800,000	800,000
Redevelopment Agency, City of Ukiah start -up loan secured by land on Clara Street bearing simple interest of 3%. Due on September 5, 2005, the note has been extended until permanent financing funds.	-	300,000	300,000
Redevelopment Agency, Mendocino County start-up loan payable when primary financing funds. The note bears no interest as long as the resulting housing is affordable to low-income families.	-	249,000	249,000
Savings Bank of Mendocino County - \$1,829,520 Promissory Note secured by land at Brush Street and is due October 01, 2007. Interest is fixed at 3.5% and is payable monthly. This note has been extended until 2009.	-	1,829,520	1,829,520
City of Fort Bragg Promissory Note for \$50,000 that accrues interest at 3 %. The principle amount shall be due and payable on March 1, 2056.	-	50,000	50,000
California Department of Housing and Community Development note dated July 14, 2004 for a maximum amount of \$983,026 for the rehabilitation of Cypress Ridge Apartments. The note accrues simple interest of 3% per annum and is only to be repaid from residual receipts commencing the last day of the initial operating year. The unpaid principal and accrued interest balance are due in full on the 55th anniversary of the note.	-	362,818	362,818
Lake County Redevelopment Agency - Note dated November 1, 2004, not to exceed \$250,000, secured by deed of trust on Collier St. land. 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.	-	250,000	250,000

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2007

NOTE 5. LONG-TERM DEBT (Continued)

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
Rural Community Assistance Corporation promissory note, not to exceed \$500,000 bearing 5% interest with principal and accrued interest due on September 1, 2008. The funds are targeted for Nice, California. The accrued interest to date is \$12,130. This note has been extended.	\$ -	\$ 265,585	\$ 265,585
RNA Community Builders Inc. - \$300,000 straight note, secured by deed of trust on Lake Mendocino Drive land bearing 5% interest with principal and accrued interest due September 3, 2008. Accrued interest to date is \$10,000. This note has been extended for 6 months.	-	300,000	300,000
Savings Bank of Mendocino County - Promissory note secured by Lake Mendocino Drive land with variable interest starting at 5.5%, paid monthly. The original note was in the amount of \$352,000. The remaining principal balance is due April 4, 2008.	53,737	-	53,737
Development Fund Totals	<u>305,238</u>	<u>14,497,954</u>	<u>14,803,192</u>
Fund Totals	<u>313,491</u>	<u>15,214,068</u>	<u>15,527,559</u>
Owned Projects			
Creekside Village was financed with a mortgage note of \$1,952,900 with the United States Department of Housing and Urban Development (HUD), under Section 202 of the National Housing Act of 1959. The mortgage note bears interest at the rate of 9.25% per annum and is being repaid in 480 equal monthly installments of principal and interest of \$15,441 payable through January 1, 2024.	\$ 43,815	\$ 1,511,736	\$ 1,555,551
Cypress Ridge was 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 contract bears interest at the rate of 9.0% per annum, payable in 588 equal monthly installments (49 years) of principal and interest of \$11,780 through November 12, 2029. In addition, there is an interest subsidy from Rural Development associated with these mortgages that reduces the effective interest rate to 7.0%. The subsidy is not recorded on the Project's books as income or expense and reduces the actual monthly payments by RCHDC to \$9,362. The interest subsidy is deducted monthly by Rural Development directly from the contract payments and for the year ended October 31, 2007 amounted to \$25,487.	25,889	1,220,904	1,246,793

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2007

NOTE 5. LONG-TERM DEBT (Continued)

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
Highlands Village was 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.	\$ 48,178	\$ 1,141,251	\$ 1,189,429
Holden Street was 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.	8,913	201,641	210,554
Holly Heights I was financed with two mortgage notes of \$125,000 and \$670,000, totaling \$795,000, with FmHA under Section 515 of the National Housing Act of 1959. The mortgage note contract bears 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 Rural Development associated with these mortgages that reduces the effective interest rate to 6.0%. The subsidy is not recorded on the Project's books as income or expense and reduces the actual monthly payments by RCHDC to \$4,405. The interest subsidy is deducted monthly by Rural Development directly from the contract payments and for the year ended October 31, 2007 amounted to \$7,321.	32,913	312,741	345,654
Holly Heights I and Holly Heights II received additional financing with a HOME note from the California Department of Housing and Community Development. Principal and interest are due January 31, 2031. The mortgage note contract bears interest at the rate of 3.0%. The funding received by Holly Heights I and Holly Heights II was \$238,636 and \$178,928, respectively.	-	417,564	417,564
Holly Heights II was financed with a mortgage note with FmHA under Section 515 of the National Housing Act of 1959. The mortgage note bears interest at the rate of 6.875% per annum.	3,990	738,062	742,052

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2007

NOTE 5. LONG-TERM DEBT (Continued)

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<p>McCarty Manor was financed with a mortgage note of \$1,708,500 with FmHA under Section 515 of the National Housing Act of 1959. The mortgage note contract bears interest at the rate of 10.75% per annum, payable in 588 equal monthly installments (49 years) of principal and interest of \$15,378 through October 1, 2032. In addition, there is an interest subsidy from Rural Development associated with this mortgage that reduces the effective interest rate to 9.75%. The subsidy is not recorded on the Project's books as income or expense and reduces the actual monthly payments by RCHDC to \$14,010. The interest subsidy is deducted monthly by Rural Development directly from the contract payments and for the year ended October 31, 2007 amounted to \$13,336.</p>	\$ 41,740	\$ 1,273,256	\$ 1,314,996
<p>Sunshine Manor was financed with a mortgage note of \$1,112,400 with HUD, under Section 202 of the National Housing Act of 1959. The mortgage note bears interest at the rate of 6.875% per annum and is being repaid in 480 equal monthly installments of principal and interest of \$6,812 payable through October 1, 2019.</p>	36,928	629,649	666,577
<p>Walnut Village was financed with a mortgage note of \$1,395,100 with HUD, under Section 202 of the National Housing Act of 1959. The mortgage note bears interest at the rate of 6.875% per annum and is being repaid in 480 equal monthly installments of principal and interest of \$8,543 payable through September 1, 2019.</p>	46,539	785,656	832,195
<p>Gibson Court 4 was financed with an Affordable Housing Program Direct Subsidy. The Agreement allows for no payments or interest as long as the Project remains affordable for households with income at or below 50% of average median income.</p>	-	20,000	20,000
<p>McCloud Motel Apartments was financed through a promissory note from the Housing Assistance Council. The note accrues interest at 5%. The entire balance of principal and accrued interest is due and payable December 31, 2008. The note is secured by a First Deed of Trust.</p>	-	799,747	799,747
Owned Projects Totals	<u>288,905</u>	<u>9,052,207</u>	<u>9,341,112</u>

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2007

NOTE 5. LONG-TERM DEBT (Continued)

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
Controlled Projects			
Bevins Court was financed with a Promissory note of \$100,000 from the County of Lake. The note matures in January of 2044, bears annual interest at the rate of 2%. and is being repaid in 37 equal annual installments of principal and interest of \$4,235.75 payable beginning January 15, 2008. Annual payments on interest and principal shall be made from "residual receipts" as determined by HUD or from the project's own funds.	\$ -	\$ 100,000	\$ 100,000
Bevins Court was financed with a \$68,800 Affordable Housing Program Direct Subsidy. The Agreement allows for no payments or interest as long as the Project remains affordable for households with income at or below 50% of average median income.	-	68,800	68,800
Bevins Court was financed with a Capital Advance Mortgage note of \$1,104,100 from HUD, under Section 811. The mortgage note bears no interest and repayment is not required as long as the housing remains available for qualifying persons with disabilities. The note matures May 1, 2041 and may not be prepaid without prior written approval of HUD. Provided that the Project remains available for disabled persons until the maturity date and RCHDC has not defaulted under the terms of the mortgage regulatory agreement, HUD will deem the note paid in full.	-	1,104,100	1,104,100
North Shore Villas was 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.	18,128	1,317,189	1,335,317
Gibson Court was financed with a \$60,000 Affordable Housing Program Direct Subsidy. The Agreement allows for no payments or interest as long as the Project remains affordable for households with income at or below 50% of average median income.	-	60,000	60,000

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2007

NOTE 5. LONG-TERM DEBT (Continued)

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<p>Gibson Court was 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 has remained available for disabled persons until the maturity date, and that RCHDC 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.</p>	\$ -	\$ 752,400	\$ 752,400
<p>Gibson Court was financed with a Promissory note of \$758,824 from California Department of Housing and Community Development Home Investment Partnerships Program (HOME). The note matures in May of 2031 and bears annual interest of 3%. Annual payments of interest and principal shall be made only from “residual receipts” approved by HUD for any particular year. No payments shall be required from this promissory note in the absence of residual receipts. All other terms and conditions of the note correspond to the provisions of HUD Section 811.</p>	-	758,824	758,824
<p>Lakeview Apts. was 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.</p>	23,685	1,429,542	1,453,227
<p>Jack Simpson Apts. was 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.</p>	16,854	1,468,794	1,485,648

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2007

NOTE 5. LONG-TERM DEBT (Continued)

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
North Pine St. Apts. was financed with a Capital Advance Mortgage note of \$706,000 with HUD under Section 202 of the National Housing Act of 1959. The mortgage note bears no interest and repayment is not required as long as the housing remains available for low-income seniors. The note matures September 1, 2041 and may not be prepaid without prior written approval of HUD. Provided that the Project has remained available for low-income seniors until the maturity date, and that the borrower 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.	\$ -	\$ 706,000	\$ 706,000
North Pine St. Apts. was financed with a \$47,500 Affordable Housing Program Direct Subsidy. The Agreement allows for no payments or interest as long as the Project remains affordable for households with income at or below 50% of average median income.	-	47,500	47,500
Oak Park Manor was financed with a Capital Advance Mortgage note of \$1,733,300 with HUD, under Section 202 of the National Housing Act of 1959. The mortgage note bears no interest and repayment is not required as long as the housing remains available for low-income seniors. The note matures August 1, 2033 and may not be prepaid without prior written approval of the HUD. Provided that the Project has remained available for low-income seniors until the maturity date, and that the borrower has not defaulted under the terms of the Note, Mortgage or Regulatory Agreement, the HUD will deem the note paid in full at the maturity date.	-	1,733,300	1,733,300
Siskiyou Garden Apts. was financed with a mortgage note of \$485,580 with a finance company. The mortgage note bears interest at the rate of 7% per annum and is being repaid in 190 equal monthly installments of principal and interest of \$4,007 payable through September 30, 2013. In addition, there is an interest subsidy from HUD associated with the mortgage that reduces the effective interest rate to .45%. The subsidy reduces the actual monthly payments to \$1,441.53. The interest subsidy is deducted monthly by the finance company directly from the contract payments.	31,916	213,502	245,418
Washington Court was financed with a \$55,000 Affordable Housing Program Direct Subsidy. The Agreement provides for 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.	-	55,000	55,000

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2007

NOTE 5. LONG-TERM DEBT (Continued)

	Current	Long-Term	Total
<p>Washington Court was financed with a Capital Advance Mortgage note in the amount of \$924,000 with HUD under Section 202 of the National Housing Act of 1959. The mortgage note bears no interest and repayment is not required as long as the housing remains available for low-income seniors. The note matures August 2, 2041 and may not be prepaid without prior written approval of HUD. Provided that the Project has remained available for low-income seniors until the maturity date, and that the borrower 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.</p>	\$ -	\$ 924,000	\$ 924,000
<p>Washington Court was financed with a Promissory note of \$212,856 from California Department of Housing and Community Development Home Investment Partnerships Program (HOME). The note matures in August of 2031 with 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. All other terms and conditions of the note correspond to the provisions of HUD Section 202.</p>	-	202,720	202,720
<p>Lenore Street was financed through a \$60,000 Affordable Housing Program Direct Subsidy. The Agreement provides for 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.</p>	-	60,000	60,000
<p>Lenore Street was 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 has remained available for low-income seniors until the maturity date, and that the borrower has not defaulted under the terms of the Note, Mortgage or Regulatory Agreement, HUD will deem the note paid in full.</p>	-	835,800	835,800
<p>Controlled Projects Totals</p>	90,583	11,837,471	11,928,054
<p>Grand Totals</p>	\$ 692,979	\$ 36,103,746	\$ 36,796,725

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 OCTOBER 31, 2007

NOTE 5. LONG-TERM DEBT (Continued)

Aggregate maturities required on the mortgages payable at October 31, 2007 are as follows:

<u>Fiscal Year Ended October 31:</u>	<u>Funds</u>	<u>Owned</u>	<u>Controlled</u>	<u>Total</u>
2008	\$ 313,491	\$ 288,905	\$ 90,583	\$ 692,979
2009	3,656,354	1,112,399	98,336	4,867,089
2010	439,250	338,624	106,761	884,635
2011	113,049	366,772	116,861	596,682
2012	114,507	397,331	127,984	639,822
Thereafter	10,890,908	6,837,081	11,387,529	29,115,518
Total	<u>\$ 15,527,559</u>	<u>\$ 9,341,112</u>	<u>\$ 11,928,054</u>	<u>\$ 36,796,725</u>

Several notes listed in long-term debt have been either been refinanced or extended beyond the due dates specified on the original notes subsequent to October 31, 2007.

Additionally, some of the above notes, which have been extended beyond their original due dates, are with the City of Ukiah and the Redevelopment Agency of the City of Ukiah. Management of RCHDC is in constant contact with these funding sources and negotiations are in process to determine if the funds will need to be repaid or if they will be transferred to other projects under development. The City's policy at this time is to roll the loans of completed projects over to new projects in the pre-development stage. These loans have been extended and are not considered delinquent.

NOTE 6. ACCRUED INTEREST PAYABLE

Several of the notes payable described in Note 5 accrue interest but no payments are due in the near future. Accrued interest of \$473,290 has been classified as long-term.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 OCTOBER 31, 2007

NOTE 7. COMMITMENTS AND CONTINGENCIES

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

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

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

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

- A) Redwood Court Property Corporation is the General Partner in Redwood Court Property, a limited partnership formed on July 1, 1987. Although most of the ongoing obligations of the General Partner have expired, it continues to fund modest amounts of negative cash flow related to the operations of the Redwood Court Apts.
- B) Pine Gardens I, Inc. has the following ongoing obligations related to Orchard River Associates, L.P. and the three apartment projects it owns:
 - i) Pine Gardens I, Inc., together with RCHDC, is required to maintain an aggregate net worth of not less than \$500,000.
 - ii) Pine Gardens I, Inc. is required to establish segregated Operating Reserve Accounts for each project as follows:

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

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

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2007

NOTE 7. COMMITMENTS AND CONTINGENCIES (Continued)

- iii) Pine Gardens I, Inc. has guaranteed to fund the operating deficits of each project until each project has achieved a Debt Service Coverage Ratio of 1.15 to 1.00 for sixty (60) consecutive months up to an aggregate amount of \$788,925 after the segregated Operating Reserve Accounts have been exhausted.
 - iv) Pine Gardens I, Inc. is required to make capital contributions to the partnership to compensate the Limited Partner for any ongoing shortfall in the tax credits which are hereinafter expected to accrue for the benefit of the Limited Partnership.
 - v) Pine Gardens I, Inc. is required to make a capital contribution for the portion of the Deferred Developer Fee for each project that remains unpaid as of the end of the twelfth year following the completion of the rehabilitation of each project.
 - vi) Pine Gardens I, Inc. is required to purchase the Limited Partner's interest in the partnership for the total amount of capital contributions contributed by the Limited Partner plus any expenses incurred by the Limited Partner, based upon the occurrence of various specified events related to the failure of the projects to achieve the anticipated results. The management of the partnership believes that it is very unlikely that they will have any liability related to this obligation.
- C) CC Seabreeze, LLC (Seabreeze) and CC Seagull Villa, LLC (Seagull Villa) have the following ongoing obligations related to the respective partnerships in which they have an interest and the related projects that these partnerships own:
- i) Seabreeze and Seagull Villa have made Development Completion Guaranties related to each of the three projects in which they have an interest. The management of the partnerships believe that it is very unlikely that they will have any liability related to this guaranty.
 - ii) Seabreeze and Seagull Villa have guaranteed to fund the operating deficits of each project until each project has achieved a Debt Service Coverage Ratio of 1.10 to 1.00 for three (3) consecutive years up to the following total amounts:

Seabreeze Apts. and Totem Villa Apts.	\$314,594
Seagull Villa Apts.	\$154,262
- These obligations are required only after the Operating Reserve Target Amounts have been exhausted.
- iii) Seabreeze and Seagull Villa are required to make capital contributions to the partnerships to compensate the Limited Partners for any ongoing shortfall in the tax credits which are hereinafter expected to accrue for the benefit of the Limited Partnerships.
 - iv) Seabreeze and Seagull Villa are required to make capital contributions for the portion of the Deferred Developer Fees for each project that remain unpaid as of the end of the twelfth year following the completion of the rehabilitation of each project.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 OCTOBER 31, 2007

NOTE 7. COMMITMENTS AND CONTINGENCIES (Continued)

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

NOTE 8. GAIN (LOSS) ON SALE OF DEVELOPMENT PROPERTIES

RCHDC develops real estate for sale to Self-Help families. During the fiscal year ended October 31, 2007, RCHDC reported the following gains and losses from the sale of development properties:

	Humboldt Habitat Village
Selling Price	\$ 411,102
Total Development Costs	403,258
Gain (Loss) on Sale of Development Properties	\$ 7,844

NOTE 9. FUNCTIONAL ALLOCATION OF EXPENSES

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

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 OCTOBER 31, 2007

NOTE 10. NEIGHBORWORKS AMERICA GRANTS

During the fiscal year ended October 31, 2007, RCHDC received grant funds from Neighborhood Reinvestment Corporation (NRC). The grants have been recognized in multiple funds and related corporations. The following list provides a listing of the grants received.

<u>Grant Type</u>	<u>Project Name</u>	<u>Amount Received</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Expendable	Oak Hill Capacity Building Grant	\$ 50,000	\$ 50,000	\$ -
Expendable	Home Owner Capacity Building Grant	2,000	2,000	-
Total NRC Grants Received		<u>\$ 52,000</u>	<u>\$ 52,000</u>	<u>\$ -</u>

NOTE 11. SELF-INSURANCE

RCHDC's dental and vision insurance plans are funded through a restricted bank account established to provide medical benefits for eligible employees and their dependents. RCHDC makes monthly contribution to the account to cover expected expenses. RCHDC deposited contributions in the amount of \$16,856 to the account during the fiscal year ended October 31, 2007.

NOTE 12. DEFINED CONTRIBUTION PENSION PLAN

RCHDC has a 403(b) defined contribution pension plan covering all employees with at least one year and 1,000 hours of service. RCHDC makes a matching contribution to the plan each year, up to, but not to exceed 5% of employees' regular pay. Total expense for the year ended October 31, 2007 was \$32,234.

NOTE 13. TRANSFER OF NET ASSETS

During the fiscal year, RCHDC transferred net assets from Fund 20 to Fund 10 in the amount of \$7,811, equal to the principal reduction in the note payable held in Fund 10 which is paid monthly by Fund 20.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2007

NOTE 14. NET ASSETS

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

Temporarily restricted net assets at October 31, 2007 of \$205,000 consists of \$135,000 representing the estimated fair market value of land obtained from the County of Lake that was purchased for \$1 for use by Bevins Court Housing Corporation. The land is restricted for affordable housing in Lake County for a period of forty years from the date of the grant. The remaining \$70,000 of temporarily restricted net assets represents grants received during the fiscal year ended October 31, 2006 from the City of Crescent City to be used for two low income housing apartments in Crescent City, California.

Permanently restricted net assets at October 31, 2007 consisted of the following:

NeighborWorks America	\$ 1,301,000
HOME	221,275
Cowell Foundation	<u>250,000</u>
Total Permanently Restricted Net Assets	<u><u>\$ 1,772,275</u></u>

NOTE 15. RESTATEMENT

Net assets were restated for the following items:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets, October 31, 2006	\$ 1,505,376	\$ 135,000	\$ 1,772,275	\$ 3,412,651
Understatement of due from related parties	64,686	-	-	64,686
Understatement of accumulated depreciation	(42,427)	-	-	(42,427)
Understatement of notes receivable	85,400	70,000	-	155,400
Understatement of investment in general partner entities	115,000	-	-	115,000
Understatement of development costs	98,917	-	-	98,917
Understatement of due to related parties	(277,593)	-	-	(277,593)
Understatement of accrued interest	(146,492)	-	-	(146,492)
Overstatement of deferred revenue	215,814	-	-	215,814
Overstatement of notes payable	48,000	-	-	48,000
Understatement of Redwood Court Property Corporation equity	(8,228)	-	-	(8,228)
Net Restatement	<u>153,077</u>	<u>70,000</u>	<u>-</u>	<u>223,077</u>
Net Assets, November 1, 2006	<u><u>\$ 1,658,453</u></u>	<u><u>\$ 205,000</u></u>	<u><u>\$ 1,772,275</u></u>	<u><u>\$ 3,635,728</u></u>

SUPPLEMENTAL INFORMATION SECTION

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
OCTOBER 31, 2007

ASSETS	Funds	Owned Projects	Controlled Entities	Consolidating Entries	Totals
Current Assets:					
Cash and cash equivalents	\$ 1,563,978	\$ 277,789	\$ 103,873	\$ -	\$ 1,945,640
Net tenant accounts receivable	2,103	1,845	2,922	-	6,870
Tenant assistance accounts receivable	-	10,542	14,140	-	24,682
Other accounts receivable	1,586	3,517	1,224	-	6,327
Due from funds	-	99	-	(99)	-
Due from owned projects	159,074	1,188	-	(160,262)	-
Due from controlled entities	147,532	-	-	(147,532)	-
Due from related parties	956,621	-	18,007	-	974,628
Prepaid expenses	35,516	72,572	45,343	-	153,431
Total Current Assets	2,866,410	367,552	185,509	(307,893)	3,111,578
Deposits:					
Tenant deposits held in trust	-	83,817	64,420	-	148,237
Tax and insurance imponds	-	148,299	108,566	-	256,865
Replacement reserve	-	1,260,020	510,558	-	1,770,578
Capital investment	-	-	16,193	-	16,193
Other reserves	-	648,459	-	-	648,459
Residual receipts reserve	-	72,728	288,055	-	360,783
Cash restricted for pension plan	29,705	-	-	-	29,705
Cash restricted for self-insurance plan	24,751	-	-	-	24,751
Cash restricted until completion of project	49,974	-	-	-	49,974
Total Deposits	104,430	2,213,323	987,792	-	3,305,545
Fixed Assets net of Accumulated Depreciation	942,580	6,584,848	11,358,014	-	18,885,442
Other Assets:					
Long-term notes receivable	836,717	-	-	(32,937)	803,780
Investment in general partner entities	-	-	147,937	-	147,937
Land held for development	4,157,520	-	-	-	4,157,520
Development costs	13,658,338	-	-	-	13,658,338
Intangibles	-	5,065	-	-	5,065
Total Other Assets	18,652,575	5,065	147,937	(32,937)	18,772,640
Total Assets	\$ 22,565,995	\$ 9,170,788	\$ 12,679,252	\$ (340,830)	\$ 44,075,205
LIABILITIES AND NET ASSETS (DEFICIT)					
Liabilities:					
Current Liabilities:					
Checks issued in excess of deposits	\$ 798,334	\$ -	\$ -	\$ -	\$ 798,334
Accounts payable and accrued liabilities	485,030	55,902	26,671	-	567,603
Accrued interest payable	146,770	48,580	37,331	-	232,681
Due to funds	-	159,074	147,532	(306,606)	-
Due to owned properties	99	1,188	-	(1,287)	-
Due to related parties	377,642	-	-	-	377,642
Current portion mortgages and notes payable	313,491	288,905	90,583	-	692,979
Deferred revenue	24,256	2,869	2,288	-	29,413
Total Current Liabilities	2,145,622	556,518	304,405	(307,893)	2,698,652
Long-Term Liabilities:					
Tenant deposits held in trust	6,798	86,195	64,420	-	157,413
Accrued interest payable	201,017	81,450	190,823	-	473,290
Construction contracts payable	1,572,607	-	-	-	1,572,607
Mortgages and notes payable	15,214,068	9,052,207	11,870,408	(32,937)	36,103,746
Total Long-Term Liabilities	16,994,490	9,219,852	12,125,651	(32,937)	38,307,056
Total Liabilities	19,140,112	9,776,370	12,430,056	(340,830)	41,005,708
Net Assets (Deficit):					
Unrestricted	2,009,608	(717,582)	(199,804)	-	1,092,222
Temporarily restricted	70,000	-	135,000	-	205,000
Permanently restricted	1,346,275	112,000	314,000	-	1,772,275
Total Net Assets (Deficit)	3,425,883	(605,582)	249,196	-	3,069,497
Total Liabilities and Net Assets (Deficit)	\$ 22,565,995	\$ 9,170,788	\$ 12,679,252	\$ (340,830)	\$ 44,075,205

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATING SCHEDULE OF ACTIVITIES
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2007

REVENUES	Funds	Owned Projects	Controlled Entities	Consolidating Entries	Total
Net tenant rents	\$ -	\$ 829,635	\$ 641,342	\$ -	\$ 1,470,977
Tenant assistance payments	-	1,743,529	993,819	-	2,737,348
Other rents	106,054	-	-	-	106,054
Grant income	411,162	-	-	-	411,162
Interest income	17,791	43,842	8,485	-	70,118
Management fees and reimbursements	586,910	-	-	(370,591)	216,319
Operational revenue	155,407	13,816	8,431	-	177,654
Other revenue	197,403	2,971	86,029	-	286,403
Gain (loss) on sale of development properties	7,844	-	-	-	7,844
Total Revenues	1,482,571	2,633,793	1,738,106	(370,591)	5,483,879
EXPENSES					
Administrative services	1,195,018	359,730	304,630	-	1,859,378
Management Fees	-	188,489	144,784	(333,273)	-
Bookkeeping and Accounting Fees	-	16,618	20,700	(37,318)	-
Utilities	28,967	163,656	214,763	-	407,386
Operating and maintenance:					
Operating accounts	220,187	542,866	303,052	-	1,066,105
Replacement reserve and residual receipts accounts	-	123,727	123,745	-	247,472
Taxes and insurance	219,659	185,000	135,544	-	540,203
Interest expense	31,969	670,586	431,171	-	1,133,726
Amortization and depreciation	49,210	384,973	361,657	-	795,840
Total Expenses	1,745,010	2,635,645	2,040,046	(370,591)	6,050,110
Change In Net Assets	(262,439)	(1,852)	(301,940)	-	(566,231)
Net Assets Deficit), Beginning	3,688,322	(603,730)	551,136	-	3,635,728
Net Assets (Deficit), Ending	<u>\$ 3,425,883</u>	<u>\$ (605,582)</u>	<u>\$ 249,196</u>	<u>\$ -</u>	<u>\$ 3,069,497</u>

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATING SCHEDULE OF CASH FLOWS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2007

CASH FLOWS FROM OPERATING ACTIVITIES	Funds	Owned Projects	Controlled Entities	Consolidating Entries	Totals
Change in Total Net Assets from Operations	\$ (262,439)	\$ (1,852)	\$ (301,940)	\$ -	\$ (566,231)
Adjustments to Reconcile Changes in Net Asset to Net cash Provided by (Used in) Operating Activities:					
Amortization and Depreciation	49,210	384,973	361,657	-	795,840
Decrease (Increase) in:					
Net tenant accounts receivable	(2,061)	428	(1,060)	-	(2,693)
Tenant assistance accounts receivable	-	3,026	(10,323)	-	(7,297)
Other accounts receivable	43,592	(1,959)	(186)	-	41,447
Due from funds	-	(99)	6	93	-
Due from owned properties	(123,900)	(1,188)	-	125,088	-
Due from controlled properties	(39,693)	-	-	39,693	-
Due from related parties	101,909	-	-	-	101,909
Prepaid expenses	(14,148)	(56,706)	(24,702)	-	(95,556)
Increase (Decrease) in:					
Checks issued in excess of deposits	428,148	-	(22,869)	-	405,279
Accounts payable and accrued liabilities	93,500	27,025	18,123	-	138,648
Accrued interest payable	54,174	(1,577)	3,650	-	56,247
Due to funds	-	123,900	39,693	(163,593)	-
Due to Owned Properties	99	1,188	-	(1,287)	-
Due to controlled properties	(6)	-	-	6	-
Due to related parties	67,984	-	-	-	67,984
Deferred revenue	(1,061)	(2,095)	(3,855)	-	(7,011)
Net Cash Provided by (Used in) Operating Activities	<u>395,308</u>	<u>475,064</u>	<u>58,194</u>	<u>-</u>	<u>928,566</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Decrease (Increase) in:					
Tenant deposits held in trust	6,798	1,361	-	-	8,159
Tax and insurance impounds	-	(17,865)	11,434	-	(6,431)
Replacement reserve	-	(56,305)	49,944	-	(6,361)
Capital investment	-	-	4,907	-	4,907
Other reserves	-	(13,275)	-	-	(13,275)
Residual receipts reserve	-	(30,695)	54,256	-	23,561
Cash restricted for pension plan	(2,749)	-	-	-	(2,749)
Cash restricted for self-insurance plan	9,632	-	-	-	9,632
Cash restricted until completion of project	(125)	-	-	-	(125)
Purchase of fixed assets	(30,469)	(832,265)	(84,421)	-	(947,155)
Increase in long-term notes receivable	(164,194)	-	-	32,937	(131,257)
Increase in investment in general partner entities	-	-	(32,937)	-	(32,937)
Increase in development costs	(6,148,173)	-	-	-	(6,148,173)
Transfer of land held for development	335,000	-	-	-	335,000
Intangibles	-	(7,959)	-	-	(7,959)
Net Cash Provided by (Used in) Investing Activities	<u>(5,994,280)</u>	<u>(957,003)</u>	<u>3,183</u>	<u>32,937</u>	<u>(6,915,163)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from mortgages and notes payable	3,816,768	799,747	-	-	4,616,515
Increase in long-term accrued interest	41,441	39,113	26,611	-	107,165
Increase in construction contracts payable	1,572,607	-	-	-	1,572,607
Principal payments on mortgages and notes payable	(397,812)	(266,496)	(50,512)	(32,937)	(747,757)
Net Cash Provided by (Used in) Financing Activities	<u>5,033,004</u>	<u>572,364</u>	<u>(23,901)</u>	<u>(32,937)</u>	<u>5,548,530</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(565,968)	90,425	37,476	-	(438,067)
Cash and Cash Equivalents, Beginning	2,129,946	187,364	66,397	-	2,383,707
Cash and Cash Equivalents, Ending	<u>\$ 1,563,978</u>	<u>\$ 277,789</u>	<u>\$ 103,873</u>	<u>\$ -</u>	<u>\$ 1,945,640</u>
Amounts Paid for Interest	<u>\$ 124,687</u>	<u>\$ 633,050</u>	<u>\$ 400,910</u>	<u>\$ -</u>	<u>\$ 1,158,647</u>
Amounts Paid for Income Tax	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATING FUND SCHEDULE OF FINANCIAL POSITION
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2007

ASSETS	Funds						Consolidating	Totals	
	10	20	21	22	23	70			90
Current Assets:									
Cash and cash equivalents	\$ 93,824	\$ 1,230	\$ 969,982	\$ 353,628	\$ -	\$ -	\$ 145,314	\$ -	\$ 1,563,978
Net tenant accounts receivable	-	2,103	-	-	-	-	-	-	2,103
Tenant assistance accounts receivable	-	-	-	-	-	-	-	-	-
Other accounts receivable	-	443	-	1,143	-	-	-	-	1,586
Due from fund 10	-	300	-	-	-	-	-	(300)	-
Due from owned projects	20,000	85,968	45,023	8,083	-	-	-	-	159,074
Due from controlled entities	94,693	51,543	-	1,296	-	-	-	-	147,532
Due from related parties	8,160	113,424	824,951	10,086	-	-	-	-	956,621
Prepaid expenses	-	10,859	17,353	1,656	143	5,505	-	-	35,516
Total Current Assets	216,677	265,870	1,857,309	375,892	143	5,505	145,314	(300)	2,866,410
Deposits:									
Cash restricted for pension plan	29,705	-	-	-	-	-	-	-	29,705
Cash restricted for self-insurance plan	24,751	-	-	-	-	-	-	-	24,751
Cash restricted until completion of project	-	-	49,974	-	-	-	-	-	49,974
Total Deposits	54,456	-	49,974	-	-	-	-	-	104,430
Fixed Assets net of Accumulated Depreciation	942,580	-	-	-	-	-	-	-	942,580
Other Assets:									
Long-term notes receivable	258,000	-	578,717	-	-	-	-	-	836,717
Land held for development	-	-	4,157,520	-	-	-	-	-	4,157,520
Development costs	-	-	13,658,338	-	-	-	-	-	13,658,338
Total Other Assets	258,000	-	18,394,575	-	-	-	-	-	18,652,575
Total Assets	\$ 1,471,713	\$ 265,870	\$ 20,301,858	\$ 375,892	\$ 143	\$ 5,505	\$ 145,314	\$ (300)	\$ 22,565,995
LIABILITIES AND NET ASSETS (DEFICIT)									
Liabilities:									
Current Liabilities:									
Checks issued in excess of deposits	\$ -	\$ 558,761	\$ -	\$ -	\$ 209,312	\$ 30,261	\$ -	\$ -	\$ 798,334
Accounts payable and accrued liabilities	54,158	192,211	54,532	15,536	3,660	19,619	145,314	-	485,030
Accrued interest payable	-	-	146,770	-	-	-	-	-	146,770
Due to fund 20	300	-	-	-	-	-	-	(300)	-
Due to owned properties	-	99	-	-	-	-	-	-	99
Due to related parties	-	-	377,593	49	-	-	-	-	377,642
Current portion mortgages and notes payable	8,253	-	305,238	-	-	-	-	-	313,491
Deferred revenue	4,255	1	20,000	-	-	-	-	-	24,256
Total Current Liabilities	66,966	751,072	904,133	15,585	212,972	49,880	145,314	(300)	2,145,622
Long-Term Liabilities:									
Tenant deposits held in trust	6,798	-	-	-	-	-	-	-	6,798
Accrued interest payable	-	-	201,017	-	-	-	-	-	201,017
Construction contracts payable	-	-	1,572,607	-	-	-	-	-	1,572,607
Mortgages and notes payable	716,114	-	14,497,954	-	-	-	-	-	15,214,068
Total Long-Term Liabilities	722,912	-	16,271,578	-	-	-	-	-	16,994,490
Total Liabilities	789,878	751,072	17,175,711	15,585	212,972	49,880	145,314	(300)	19,140,112
Net Assets (Deficit):									
Unrestricted	681,835	(485,202)	1,709,872	360,307	(212,829)	(44,375)	-	-	2,009,608
Temporarily restricted	-	-	70,000	-	-	-	-	-	70,000
Permanently restricted	-	-	1,346,275	-	-	-	-	-	1,346,275
Total Net Assets (Deficit)	681,835	(485,202)	3,126,147	360,307	(212,829)	(44,375)	-	-	3,425,883
Total Liabilities and Net Assets (Deficit)	\$ 1,471,713	\$ 265,870	\$ 20,301,858	\$ 375,892	\$ 143	\$ 5,505	\$ 145,314	\$ (300)	\$ 22,565,995

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATING FUND SCHEDULE OF ACTIVITIES
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2007

REVENUES	Funds						Consolidating Entries	Total
	10	20	21	22	23	70		
Other rents	\$ -	\$ 106,054	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 106,054
Grant income	-	-	153,593	-	49,239	208,330	-	411,162
Interest income	796	11,609	5,386	-	-	-	-	17,791
Management fees and reimbursements	-	42,776	-	544,134	-	-	-	586,910
Indirect revenue	-	303,775	-	-	-	-	(303,775)	-
Operational revenue	-	63,293	79,261	10,440	1,670	743	-	155,407
Other revenue	-	267	196,544	197	395	-	-	197,403
Gain (loss) on sale of development properties	-	-	7,844	-	-	-	-	7,844
Total Revenues	796	527,774	442,628	554,771	51,304	209,073	(303,775)	1,482,571
EXPENSES								
Administrative services	-	590,253	207,806	287,866	25,691	83,402	-	1,195,018
Indirect fees	-	-	104,341	146,037	14,305	39,092	(303,775)	-
Utilities	-	28,967	-	-	-	-	-	28,967
Operating and maintenance:								
Operating accounts	-	58,822	15,315	395	1,591	144,064	-	220,187
Taxes and insurance	-	85,523	32,441	45,624	1,712	54,359	-	219,659
Interest expense	-	31,969	-	-	-	-	-	31,969
Amortization and depreciation	49,210	-	-	-	-	-	-	49,210
Total Expenses	49,210	795,534	359,903	479,922	43,299	320,917	(303,775)	1,745,010
Change In Net Assets	(48,414)	(267,760)	82,725	74,849	8,005	(111,844)	-	(262,439)
Transfer of Net Assets	7,811	(7,811)	-	-	-	-	-	-
Net Assets (Deficit), Beginning	722,438	(209,631)	3,043,422	285,458	(220,834)	67,469	-	3,688,322
Net Assets (Deficit), Ending	\$ 681,835	\$ (485,202)	\$ 3,126,147	\$ 360,307	\$ (212,829)	\$ (44,375)	\$ -	\$ 3,425,883

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CONSOLIDATING FUND SCHEDULE OF CASH FLOWS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2007

CASH FLOWS FROM OPERATING ACTIVITIES	Funds						Consolidating Entries	Total
	10	20	21	22	23	70		
Change in Total Net Assets from Operations	\$ (48,414)	\$ (267,760)	\$ 82,725	\$ 74,849	\$ 8,005	\$ (111,844)	\$ -	\$ (262,439)
Adjustments to Reconcile Changes in Net Asset to Net cash Provided by (Used in) Operating Activities:								
Amortization and Depreciation	49,210	-	-	-	-	-	-	49,210
Decrease (Increase) in:								
Net tenant accounts receivable	-	(2,061)	-	-	-	-	-	(2,061)
Other accounts receivable	2,767	127	-	(968)	-	41,666	-	43,592
Due from owned properties	-	(70,794)	(45,023)	(8,083)	-	-	-	(123,900)
Due from controlled properties	(608)	(37,789)	-	(1,296)	-	-	-	(39,693)
Due from related parties	-	(48,966)	154,955	(4,080)	-	-	-	101,909
Prepaid expenses	-	(1,035)	(15,843)	342	(143)	2,531	-	(14,148)
Increase (Decrease) in:								
Checks issued in excess of deposits	-	409,409	-	-	(11,522)	30,261	-	428,148
Accounts payable and accrued liabilities	(9,649)	27,325	(1,562)	(8,121)	3,660	(317)	82,164	93,500
Accrued interest payable	-	-	54,174	-	-	-	-	54,174
Due to Owned Properties	-	99	-	-	-	-	-	99
Due to controlled properties	-	(6)	-	-	-	-	-	(6)
Due to related parties	-	-	67,935	49	-	-	-	67,984
Deferred revenue	(1,062)	1	-	-	-	-	-	(1,061)
Net Cash Provided by (Used in) Operating Activities	(7,756)	8,550	297,361	52,692	-	(37,703)	82,164	395,308
CASH FLOWS FROM INVESTING ACTIVITIES								
Decrease (Increase) in:								
Tenant Deposits Held in Trust	6,798	-	-	-	-	-	-	6,798
Cash restricted for pension plan	(2,749)	-	-	-	-	-	-	(2,749)
Cash restricted for self-insurance plan	9,632	-	-	-	-	-	-	9,632
Cash restricted until completion of project	-	-	(125)	-	-	-	-	(125)
Purchase of fixed assets	(30,469)	-	-	-	-	-	-	(30,469)
Increase in long-term notes receivable	-	-	(164,194)	-	-	-	-	(164,194)
Increase in development costs	-	-	(6,148,173)	-	-	-	-	(6,148,173)
Transfer of land held for development	-	-	335,000	-	-	-	-	335,000
Transfer of net assets	7,811	(7,811)	-	-	-	-	-	-
Net Cash Provided by (Used in) Investing Activities	(8,977)	(7,811)	(5,977,492)	-	-	-	-	(5,994,280)
CASH FLOWS FROM FINANCING ACTIVITIES								
Proceeds from mortgages and notes payable	-	-	3,816,768	-	-	-	-	3,816,768
Increase in long-term accrued interest	-	-	41,441	-	-	-	-	41,441
Increase in construction contracts payable	-	-	1,572,607	-	-	-	-	1,572,607
Principal payments on mortgages and notes payable	(7,811)	-	(390,001)	-	-	-	-	(397,812)
Net Cash Provided by (Used in) Financing Activities	(7,811)	-	5,040,815	-	-	-	-	5,033,004
Net Increase (Decrease) in Cash and Cash Equivalents	(24,544)	739	(639,316)	52,692	-	(37,703)	82,164	(565,968)
Cash and Cash Equivalents, Beginning	118,368	491	1,609,298	300,936	-	37,703	63,150	2,129,946
Cash and Cash Equivalents, Ending	\$ 93,824	\$ 1,230	\$ 969,982	\$ 353,628	\$ -	\$ -	\$ 145,314	\$ 1,563,978
Amounts Paid for Interest	\$ -	\$ 31,969	\$ 92,718	\$ -	\$ -	\$ -	\$ -	\$ 124,687
Amounts Paid for Income Tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
OCTOBER 31, 2007

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Expenditures			Total
		Funds	Owned Projects	Controlled Projects	
Federal Programs:					
U.S. Department of Agriculture:					
Farm Labor Housing Loans and Grants	10.405	\$ 3,377,744	\$ -	\$ -	\$ 3,377,744
Rural Rental Housing Loans (Sections 515 and 521)	10.415		2,475,176	-	2,475,176
Rural Self-Help Housing Technical Assistance (Section 523)	10.420	208,330	-	-	208,330
Total U.S. Department of Agriculture		3,586,074	2,475,176	-	6,061,250
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	-	-	275,181	275,181
Supportive Housing For The Elderly (Section 202 Capital Advance)	14.157	-	5,676,438	8,526,978	14,203,416
Supportive Housing For Persons with Disabilities (Section 811 Capital Advance)	14.181	-	218,683	1,856,500	2,075,183
Section 8 Housing Assistance Payments Program (Pass-Through Contract Administrator)	14.195	-	1,634,738	961,586	2,596,324
Total U.S. Department of Housing and Urban Development		-	7,529,859	11,620,245	19,150,104
NeighborWorks America:					
Expendable Grants	14.000	52,000	-	-	52,000
Total U.S. NeighborWorks America		52,000	-	-	52,000
Total Federal Awards Expended		\$ 3,638,074	\$ 10,005,035	\$ 11,620,245	\$ 25,263,354

NOTE 1. BASIS OF PRESENTATION

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

OTHER INDEPENDENT AUDITOR'S REPORTS

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

Board of Directors
Rural Communities Housing Development Corporation
Ukiah, California

We have audited the consolidated financial statements of Rural Communities Housing Development Corporation (a nonprofit organization) and its affiliates as of and for the year ended October 31, 2007, and have issued our report thereon dated October 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider item 2007-1 of the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2007-1.

We noted certain matters that we reported to management of Rural Communities Housing Development Corporation in a separate letter dated October 24, 2008.

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

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

 Robertson & Associates, CPAs

Lakeport, California
October 24, 2008

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

Board of Directors
Rural Communities Housing Development Corporation
Ukiah, California

Compliance

We have audited the compliance of Rural Communities Housing Development Corporation and its affiliates with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended October 31, 2007. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Organization's compliance with those requirements.

As described in item 2007-1 in the accompanying schedule of findings and questioned costs, the Organization did not comply with requirements regarding reserve deposit requirements that are applicable to its Supportive Housing For The Elderly. Compliance with such requirements is necessary, in our opinion, for the Organization to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Organization complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended October 31, 2007. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2007-1.

Internal Control over Compliance

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2007-1 to be significant deficiencies.

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

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

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

Robertson & Associates, CPAs

Lakeport, California
October 24, 2008

AUDITOR'S FINDINGS AND QUESTIONED COSTS

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OCTOBER 31, 2007

Section I - Summary of Auditor's Results

Financial Statements

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

Federal Awards

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

Identification of major program

CFDA Number	Name of Federal Program or Cluster
10.405	Farm Labor Housing Loans and Grants
10.415	Rural Rental Housing Loans (Sections 515 and 521)
14.157	Supportive Housing For The Elderly (Section 202 Capital Advance)
14.181	Supportive Housing For Persons with Disabilities (Section 811 Capital Advance)
14.195	Section 8 Housing Assistance Payments Program (Pass-Through Contract Administrator)

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

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CURRENT YEAR FINDINGS
OCTOBER 31, 2007

SECTION II – FINANCIAL STATEMENT FINDINGS

**Lenore Street Senior Housing - HUD PROJECT #121-EE107-NP-WAH
2007-1 Reserve for Replacement / Internal Controls**

Department of Housing and Urban Development, Supporting Housing for The Elderly - CFDA# 14.157

Criteria: The project is required by the Management Agreement to make deposits to the Reserve for Replacements Account on a monthly basis.

Condition: During our audit we found that the October 2007 deposit was not made to the Reserve for Replacement Account in a timely manner. As of the time of our report the delinquent deposit has been made and the entity is timely on deposits to the Reserve for Replacements Account.

Questioned Cost: None.

Other Information: This is an isolated instance. The delinquent deposit is due to the Project being very short of cash because of HUD delays in the Tenant Assistance Payments. During the period of our audit we found that HUD paid the Tenant Assistance Payments for the months of March through July 2007 in August 2007, and the payments for September and October 2007 in December 2007. This caused a cash flow shortage for the project. Due to staff turnover, the responsible party did not realize that it is the policy of the management company, RCHDC, to make a short-term loan to the Project to cover this payment in the case of a cash shortage.

Recommendation: We recommend thorough training for all new employees in order to avoid similar situations in the future.

Management Response: Management agrees with the recommendation and has already deposited delinquent amount.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2007-1 is for federal awards and is included herein by reference.

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
CORRECTIVE ACTION PLAN
OCTOBER 31, 2007

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

RURAL COMMUNITIES HOUSING DEVELOPMENT CORPORATION
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2007

Finding/Recommendation	Current Status	Explanation, If Not Implemented
2006-1 North Shore Villas: Disbursements authorized out of the residual receipts fund were paid out of the replacement reserves. Replace fund balances to proper levels. Have additional review of reserves disbursements.	Implemented	