

RURAL COMMUNITIES HOUSING DEVELOPMENT
CORPORATION AND AFFILIATES

Annual Financial Report

October 31, 2020

TIDWELL
 **group**



Rural Communities Housing Development Corporation
Mission and Leadership
October 31, 2020

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

Board of Directors

<u>Name</u>	<u>Date Seated</u>	<u>Term Expires</u>
Aaron Lefebvre, Chairperson	March 29, 2016	December 2023
Amanda Pardini, Vice Chairperson	October 30, 2012	December 2023
Charlotte Watkins, Secretary	November 27, 2010	December 2021
Gary Mirata, Treasurer	August 31, 2009	December 2021
Russell Belden	July 30, 2013	December 2021
Mike Pallesen	March 26, 2019	December 2021
Richard Henderson	November 27, 2018	December 2020

ADMINISTRATION

Brad McDonald - Chief Executive Officer
Jennifer Hofstetter - Chief Financial Officer

ADDRESS OF CORPORATE OFFICE

499 Leslie Street
Ukiah, California 95482

Rural Communities Housing Development Corporation
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Rural Communities Housing Development Corporation

We have audited the accompanying consolidated statement of financial position of Rural Communities Housing Development Corporation and Affiliates (the Corporation) as of October 31, 2020, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Corporation as of October 31, 2020, and the consolidated results of their operations and changes in net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, the Corporation adopted Financial Accounting Standards Board Accounting Standards Updates (ASU) ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*; ASU No. 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*; and ASU 2014-09 *Revenue from Contracts with Customers (Topic 606)* and the related amendments in ASUs 2015-14, 2016-08, 2016-10, and 2016-12 effective November 1, 2019. Our opinion is not modified with respect to this matter.

Other Matters

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated April 27, 2021, on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Tidwell Group, LLC

Columbus, Ohio
April 27, 2021

Taxpayer Identification Number:
27-1490692

Lead Auditor: Patty Azallion, CPA

Rural Communities Housing Development Corporation
Consolidated Statement of Financial Position
October 31, 2020

Assets

	Without Donor Restrictions	With Donor Restrictions	Totals
Current Assets:			
Cash	\$ 2,334,116	\$ 47,359	\$ 2,381,475
Tenant accounts receivable	102,221	-	102,221
Tenant assistance accounts receivable	27,081	-	27,081
Other accounts receivable	82,121	-	82,121
Due from related parties	1,343,644	-	1,343,644
Prepaid expenses	156,326	-	156,326
Total Current Assets	4,045,509	47,359	4,092,868
Deposits:			
Tenant security deposits held in trust	238,801	-	238,801
Tax and insurance impounds	128,100	-	128,100
Replacement reserves	4,650,697	-	4,650,697
Other required reserves	627,344	-	627,344
Residual receipts reserves	1,228,058	-	1,228,058
Cash restricted for self-insurance plan	68,528	-	68,528
Total Deposits	6,941,528	-	6,941,528
Fixed Assets - Net	21,637,969	11,243,690	32,881,659
Other Assets:			
Long-term notes receivable	2,045,580	669,522	2,715,102
Developer notes receivable	822,769	-	822,769
Advances and investments in nonconsolidated affiliates	924,011	916,800	1,840,811
Land held for development	1,604,694	243,841	1,848,535
Development costs	2,420,692	483,031	2,903,723
Total Other Assets	7,817,746	2,313,194	10,130,940
Total Assets	\$ 40,442,752	\$ 13,604,243	\$ 54,046,995

See Notes to the Consolidated Financial Statements.

Rural Communities Housing Development Corporation
Consolidated Statement of Financial Position - continued
October 31, 2020

Liabilities and Net Assets

	Without Donor Restrictions	With Donor Restrictions	Totals
Current Liabilities:			
Accounts payable and accrued liabilities	\$ 518,425	\$ -	\$ 518,425
Residual receipts liability	1,030,176	-	1,030,176
Accrued interest payable	376,054	-	376,054
Current portion of mortgages and notes payable	2,907,632	-	2,907,632
Deferred revenue	16,752	-	16,752
Total Current Liabilities	4,849,039	-	4,849,039
Long-Term Liabilities:			
Tenant security deposits	235,468	-	235,468
Accrued interest payable	3,988,052	-	3,988,052
Mortgages and notes payable - net	34,366,454	-	34,366,454
Less: unamortized debt issuance costs	(796,459)	-	(796,459)
Total Long-Term Liabilities	37,793,515	-	37,793,515
Total Liabilities	42,642,554	-	42,642,554
Net Assets	(2,199,802)	13,604,243	11,404,441
Total Liabilities and Net Assets	\$ 40,442,752	\$ 13,604,243	\$ 54,046,995

See Notes to the Consolidated Financial Statements.

Rural Communities Housing Development Corporation
Consolidated Statement of Activities and Changes in Net Assets
Year ended October 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Totals
Revenues			
Net tenant rents	\$ 2,341,287	\$ -	\$ 2,341,287
Tenant assistance payments	3,549,855	-	3,549,855
Other rents	79,673	-	79,673
Grant income	411,089	75,000	486,089
Management fees and reimbursements	520,419	-	520,419
Operational revenue	1,176,860	-	1,176,860
Other revenue	205,218	-	205,218
Unrealized gain on land development	1,556,907	-	1,556,907
Release from restriction	1,550,000	(1,550,000)	-
Total Revenues	<u>11,391,308</u>	<u>(1,475,000)</u>	<u>9,916,308</u>
Expenses			
Administrative services	3,000,401	-	3,000,401
Utilities	770,529	-	770,529
Operating and maintenance	1,402,397	-	1,402,397
Taxes and insurance	808,207	-	808,207
Financial	1,407,164	-	1,407,164
Total Expenses	<u>7,388,698</u>	<u>-</u>	<u>7,388,698</u>
Change in Net Assets from Operations	<u>4,002,610</u>	<u>(1,475,000)</u>	<u>2,527,610</u>
Non-Operating Revenue / (Expenses)			
Interest income	67,366	-	67,366
Replacement reserve and residual receipt expenditures	(88,813)	-	(88,813)
Depreciation	(1,449,765)	-	(1,449,765)
Total Non-Operating Revenue / (Expenses)	<u>(1,471,212)</u>	<u>-</u>	<u>(1,471,212)</u>
Change in Net Assets	2,531,398	(1,475,000)	1,056,398
Net Assets at the Beginning of the Year	(6,089,249)	15,079,243	8,989,994
Transfer in - purchase of limited partnership interest	1,358,049		1,358,049
Net Assets at the End of the Year	<u>\$ (2,199,802)</u>	<u>\$ 13,604,243</u>	<u>\$ 11,404,441</u>

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See Notes to the Consolidated Financial Statements.

Rural Communities Housing Development Corporation
Consolidated Statement of Cash Flows
Year ended October 31, 2020

Cash Flows From Operating Activities

Change in total net assets from operations \$ 1,056,398

Adjustments to Reconcile Changes in Net Assets to

Net Cash From Operating Activities

Net present value of notes receivable	3,770
Increase in long-term accrued interest - net	374,951
Depreciation	1,449,765
Amortization of debt issuance costs	26,411
Unrealized gain on land development	(1,556,907)

Decrease (Increase) in:

Net tenant accounts receivable	(76,625)
Tenant assistance accounts receivable	(14,503)
Other accounts receivable	100,665
Prepaid expenses	(18,172)

Increase (Decrease) in:

Accounts payable and accrued liabilities	(20,440)
Residual receipts liability	107,657
Accrued interest payable	2,856
Deferred revenue	11,677

Net Cash From Operating Activities

1,447,503

Cash Flows From Investing Activities

Purchase of fixed assets	(303,735)
Increase in due from related parties	(169,565)
Increase in long-term notes receivable	(194,754)
Developer notes receivable	(325,115)
Increase in advances and investments in nonconsolidated affiliates	(170,000)
Proceeds on sale of developed lots	970,177
Land held for development and development costs	(81,950)

Net Cash From Investing Activities

(274,942)

See Notes to the Consolidated Financial Statements.

Rural Communities Housing Development Corporation
 Consolidated Statement of Cash Flows - continued
 Year ended October 31, 2020

Cash Flows From Financing Activities	
Principal payments on mortgages and notes payable	\$ (1,466,217)
Proceeds from mortgage and note payable	776,969
Net Cash From Financing Activities	<u>(689,248)</u>
Net Change in Cash	483,313
Cash in - purchase of limited partner interest	847,695
Cash and Restricted Cash - Beginning of Year	<u>7,991,995</u>
Cash and Restricted Cash - End of Year	<u><u>\$ 9,323,003</u></u>
Supplemental Disclosures	
Amounts paid for interest	<u><u>\$ 1,002,946</u></u>
Non-Cash Investing Activities	
Capitalized interest	<u><u>\$ 93,550</u></u>

See Notes to the Consolidated Financial Statements.

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements
Year ended October 31, 2020

1. Organization and Nature of Operations

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

2. Significant Accounting Policies

Principles of Consolidation

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

These consolidated financial statements include Funds 20, 21, 22, 70 and 90 of RCHDC, its owned housing projects, controlled housing projects, and investments in partnerships. All but two of the controlled housing projects are owned by separate corporations or limited liability companies, which share the same board of directors as RCHDC. Two of the controlled housing projects are owned by a limited partnership in which both the general partner and the limited partner are not-for-profit corporations, which share the same board of directors as RCHDC. The controlled entities, other than housing projects, are generally corporations or limited liability companies, which share the same board of directors as RCHDC. Five 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, 2020. There were no events or transactions either excluded or included that would have a significant effect on the consolidated financial statements.

Adoption of New Accounting Principle

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The purpose of this ASU to determine (a) whether transactions should be accounted for as contributions (non-exchange transactions) within the scope of nonprofit guidance, or as exchange transactions subject to other guidance, and (b) whether a contribution is conditional. The Corporation adopted the ASU effective November 1, 2019. Adoption of the ASU did not result in any reclassifications or restatements to net assets or changes in net assets.

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2020

During 2014, the FASB issued ASU 2014-09 (ASU) and other related ASUs subsequent amendments, *Revenue from Contracts with Customers*, as an update to ASC 606, Revenue. The purpose of this ASU is to improve comparability of revenue practices among industries. The Corporation adopted the ASUs effective November 1, 2019. The implementation of the change in revenue recognition for the ASC 606 was not significant to the consolidated financial statements.

In 2016, the FASB issued ASU 2016-18, Statements of Cash Flows (Topic 230): *Restricted Cash*. The purpose of this ASU is to clarify classification of restricted cash in the Statements of Cash Flows. The Corporation adopted the ASU effective November 1, 2019.

Basis of Presentation

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

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

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

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

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2020

Summary of Funds, Owned, and Controlled Entities

<u>RCHDC Funds</u>	<u>Fund Number</u>
Administrative Fund	Fund 20
Gibson Court 4 Apartments*	
Development Fund	Fund 21
Property Management	Fund 22
Home Ownership Fund	Fund 70
Self-Help Construction Trust Fund	Fund 90
<u>RCHDC Owned Housing Projects</u>	<u>Project Operations Included</u>
Cypress Ridge	
Holden Street	
McCloud Motel Apartments	
Oak Hill Apartments	
Pine Gardens I, Inc.	
CC Seabreeze, LLC	
CC Seagull Villa, LLC	
Autumn Village, LLC	
Pine Gardens I, LLC	
Orchard River Associates, L.P.	
Pine Gardens Holding 3 LLC	Creekside Village Sunshine Manor Walnut Village
Pine Gardens Corp	
Orchard River Associates, L.P. ***	Orchard Manor Apartments Orchard Village Apartments River Gardens Apartments Highlands Village Lakeview Apartments Jack Simpson School View Apartments North Shore Villas
PineGI Highlands Village, LLC	
PineGI Lakeview Apartments, LLC	
PineGI Jack Simpson, LLC	
PineGI North Shore, LLC	
Pine Meadows Corporation	
Willow Terrace, LLC	Willow Terrace Apartments
Redwood Court Property Corporation	
Redwood Court Property, A California Limited Partnership**	Redwood Court Apartments Bevins Court Apartments Gibson Court Apartments*
Bevins Court Housing Corporation	
Gibson Court Housing Corporation	
North Pine Street Senior Housing Corporation	North Pine Street Apartments
Bed 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 Partnership in which Redwood Court Property Corporation is the general partner and Pine Gardens I, Inc. is the limited partner.

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

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2020

Description of Funds

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

Administrative Fund (Fund 20)

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

Development Fund (Fund 21)

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

Property Management Fund (Fund 22)

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

Home Ownership Fund (Fund 70)

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

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.

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2020

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, 2020.

Noninterest-bearing accounts will be added to any of a depositor's other accounts in the applicable ownership category, and the aggregate balance insured is up to at least the Standard Maximum Deposit Insurance amount of \$250,000 per depositor, at each separately chartered bank. As of October 31, 2020, RCHDC's Funds, Owned Projects and Controlled Entities held cash in banks in excess of amounts insured by the FDIC approximated \$2,600,000 for funds. \$50,000 for owned and \$1,900,000 for controlled entities.

Accounts Receivable and Bad Debt Policy

Receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method. Included in administrative expenses are bad debts of \$18,119 for the year ended October 31, 2020.

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 5, 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.

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2020

Grants

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

Grant Liens

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

Notes Receivable

As described in Note 3, RCHDC obtains funding from various external and internal sources to loan funds to individuals that qualify for self-help programs to purchase homes. The notes receivable agreements are subordinate to the first mortgage and other third party financing that has priority. The payment terms vary from 1) fully forgiven providing the buyers continue to reside in the homes for 20 to 30 years, 2) deferred for 5 or more years with payment of principal and interest 3) deferred until the first mortgage is paid in full or 4) fully amortized. At October 31, 2020, RCHDC has a reserve for forgivable loans of \$577,346 and net present value reserve of \$648,711.

RCHDC has advanced funds to Pine Gardens II, Inc. (PGII) totaling \$967,000 as of October 31, 2020. PGII then loaned the funds to unconsolidated real estate partnerships. The advance is unsecured and bears no interest.

Additionally, as described in Note 6, RCHDC has provided seller financing in the sale of four owned projects. RCHDC also enters into developer notes receivable. RCHDC considers the notes receivable related to low-income housing to be performing in accordance with the low-income housing tax credit programs for real estate investment. These notes receivable will be repaid either from the cash flow of the properties or the ultimate outcome and valuation of the transfer of the property at year 15 which is used to settle any unpaid amounts due. These notes receivable are due based on the cash flow of the tax credit projects and, therefore, are not considered past due based on the RCHDC's policy and terms for these advances. As of October 31, 2020, no allowance for uncollectible accounts is deemed necessary.

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2020

Development Costs and Revenue Recognition

Development costs are recorded on a site-specific basis. Development costs include all expenditures necessary to complete a project including but not limited to the purchase price of land, escrow and closing costs, environmental remediation, predevelopment costs, legal and other consulting fees, architecture and engineering costs, entitlement costs, governmental fees and permits, construction and supervision costs, and interest costs during the development process. Development costs are capitalized as construction in process until the completed project is placed in service, at which time construction in process is reclassified to land and buildings subject to depreciation, for reporting purposes.

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

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

RCHDC reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the estimated proceeds from the eventual disposition of the real estate or recent appraisals. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. During the year ended October 31, 2020, impairment gain on land held for development in the amount of \$1,556,907 was recorded. RCHDC may in the future sell certain real estate for less than the carrying value or determine that future events would indicate additional impairment.

Nonconsolidated Interests in Partnerships

RCHDC, through its controlled entities, holds 0.01% general partner interests in six limited partnerships which operate seven low income housing projects. Based on various provisions in the Partnership Agreements, the general partner does not have exclusive control, therefore, the general partner interests are accounted for under the cost method of accounting. Additionally, see Note 7 for disclosures regarding potential unanticipated obligations of RCHDC or its consolidated affiliates related to these partnerships. As of October 31, 2020, RCHDC's investment in the six limited partnerships totaled \$701,611 and is included in "Advances and investment in nonconsolidated affiliates" on the accompanying Consolidated Statement of Financial Position.

Effective April 1, 2020, Pine Meadows Corp., a related entity, purchased the limited partnership interest of Orchard River Associates, L.P. As a result of this transaction, RCHDC controls the general partner and limited partner interests and has consolidated Orchard River Associates, L.P. See Note 17 for additional information.

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2020

Unamortized Debt Issuance Costs

In accordance with GAAP, the debt issuance costs are presented as an offset of the related debt instruments within the liabilities section of the Consolidated Statement of Financial Position. Loan costs totaling \$917,509 for mortgage financing are being amortized using the straight-line method over the term of the mortgage and amortization expense is included in Financial expense on the accompanying Consolidated Statement of Activities and Changes in Net Assets.

GAAP requires that the effective interest method be used to amortize debt costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective interest method. Amortization for the year ended October 31, 2020 totaled \$26,411. As of October 31, 2020, accumulated amortization totaled \$179,139. The estimated amount of amortization expense for each of the next five years is \$26,411.

Income Taxes

RCHDC and the majority of its controlled corporations are exempt from Federal and California income taxes as they are recognized by the Internal Revenues Service as not-for-profit corporations exempt under Federal and California Code Sections 501(c)(3) and 23701(d), respectively. Redwood Court Properties, A California Limited Partnership; CC Seabreeze, LLC and CC Seagull Villa, LLC, Pine Gardens Holding 3, LLC, Autumn Village, LLC, PineGI Highlands Village, LLC, PineGI Lakeview Apartments, LLC, Pine GI Jack Simpson, LLC and Pine Meadows Corporation 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) for Income Taxes. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Fair Value of Financial Instruments

RCHDC considers the recorded value of its financial assets and liabilities, which consist primarily of cash, accounts receivable, accounts payable and accrued expenses, to approximate the fair value of the respective assets and liabilities at October 31, 2020 based upon the short-term nature of the assets and liabilities.

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 carrying value.

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2020

Fair Value Measurements of Assets and Liabilities

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

Advertising Costs

Advertising costs are expensed as incurred.

Use of Estimates

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

3. Notes Receivable

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.

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2020

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 6 for additional notes receivable from seller financing of four previously owned projects. Due to the long-term nature of these loans, minimal principal payments were expected during the year ended October 31, 2020.

4. Fixed Assets

Fixed assets, net of accumulated depreciation, consists of the following as of October 31, 2020:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deductions</u>	<u>Ending Balance</u>
Fixed Assets:					
Land and improvements	\$ 2,418,772	\$ -	\$ 454,334	\$ -	\$ 2,873,106
Buildings and improvements	47,821,152	288,071	9,728,110	-	57,837,333
Office furniture and equipment	1,308,898	15,664	75,979	-	1,400,541
Total Fixed Assets	<u>51,548,822</u>	<u>303,735</u>	<u>10,258,423</u>	<u>-</u>	<u>62,110,980</u>
Accumulated Depreciation	<u>(23,908,985)</u>	<u>(1,449,765)</u>	<u>(3,870,571)</u>	<u>-</u>	<u>(29,229,321)</u>
Fixed Assets - Net	<u>\$ 27,639,837</u>	<u>\$ (1,146,030)</u>	<u>\$ 6,387,852</u>	<u>\$ -</u>	<u>\$ 32,881,659</u>

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2020

5. Long-Term Debt

Long-term debt consists of the following as of October 31, 2020:

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, 2020, accrued interest totaled \$2,117. \$ 597,003

Payroll Protection Program (PPP) note payable through Small Business Association for \$767,695 with interest at 1% and matures in . If the loan does not meet the requirements under the PPP program for debt forgiveness, seventeen monthly payments of \$43,213 begin November 2020 with the final payment due April 2022. Management believes it has met the requirement for debt forgiveness, however, the note payable is going through the review process for approval for forgiveness. 767,695

Development Fund (Fund 21)

Redevelopment Agency, City of Ukiah loan to be repaid when primary financing is obtained. This note is unsecured and is non-interest bearing. 18,000

Redevelopment Agency, City of Ukiah loan requiring an annual payment of \$500, payable through September 1, 2032. This note is unsecured and is non-interest bearing. 16,000

City of Ukiah loan originally due on December 31, 1999, including a simple interest at 3%. This note is unsecured. This note has been extended by the City until called. As of October 31, 2020, accrued interest totaled \$97,242. 115,200

Redevelopment Agency, City of Ukiah loan originally due on September 26, 1999, including simple interest at 3%. This note is unsecured. This note has been extended by the City until called. As of October 31, 2020, accrued interest totaled \$25,276. 36,500

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2020

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 June 9, 2020. Management is currently working on extending this note. As of October 31, 2020, accrued interest totaled \$725. 122,000

California Department of Housing and Community Development loan of \$800,000 secured by Self-Help property on North State Street (Contract #03-PDL-34), originally due June 30, 2008, bearing interest at 3%. This note is secured by a deed of trust. The note has been extended to June 30, 2020, as amended. Management is currently working on extending this note. As of October 31, 2020, accrued interest totaled \$388,000. 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 Neighborworks loan. This note has been extended to April 1, 2020 with monthly payments of principal and interest of \$9,373. The note was paid in full in 2020. -

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, 2021, and the interest rate is 5.5%. This note is secured. The note provides for monthly principal payments and interest of \$3,000. As of October 31, 2020, accrued interest totaled \$4,312. 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

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2020

Line of credit payable to Savings Bank of Mendocino County, not to exceed \$500,000, bearing interest at prime rate plus 1% with a maturity date of October 15, 2023. Funds drawn on the line of credit are to be used for pre-development costs that are in compliance with the line of credit agreement. Collateral includes real property located in Mendocino County, California.

9,274

\$ 2,996,672

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, 2020, interest subsidy totaled \$1,756 and accrued interest totaled \$4,184.

\$ 717,363

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, 2020, accrued interest totaled \$77,351.

225,000

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2020

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, 2020, accrued interest totaled \$330,514.

908,215

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. The notes was paid in full during the current year

-

McCloud Motel Apartments rehabilitation is financed with a mortgage payable with Bellwether Enterprise Real Estate Capital, LLC, originally totaling \$700,000 and bearing interest at 4.45 percent per annum. Commencing in May 2018, the Project began to make principal and interest payments of \$3,154 per month. The entire unpaid principal balance and all accrued interest are due and payable in November 2056. The mortgage is secured by the real estate and assignment of rents and securities. As of October 31, 2019, \$613,275 has been drawn on the mortgage. The remaining funds were received in 2018. As of October 31, 2020, accrued interest totaled \$2,530.

682,333

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2020

McCloud Motel Apartments rehabilitation is financed with a note payable with the California Department of Housing and Community Development (HCD) under the Home Investment Partnership's (HOME) Program. The HOME loan provided for a maximum borrowing capacity of \$2,000,000. The note accrues simple interest of 3% per annum and requires repayment from residual receipts, as defined in the Regulatory Agreement, commencing the last day of the initial operating year following the completion of rehabilitation. The unpaid principal and accrued interest are due in full in October 2070. This note is secured by the real estate and assignments of rents and security. As of October 31, 2019, \$1,947,890 has been drawn on this note, which represents the final funded amount. Accrued interest as of October 31, 2020 totaled \$158,891. 1,947,890

Oak Hill Apartments is financed with three mortgage notes originated on October 28, 2004, in the original amounts of \$2,500,000, \$1,100,000 and \$400,000 with the United States Department of Agriculture, Rural Development under Section 514 Labor Housing of the Title V of the Housing Act of 1949. The mortgage notes bear interest at the rate of 1% per annum and payable in monthly installments of \$13,205 of principal and interest over the over the thirty-three year term of the loans through October 28, 2037. The note is secured by the apartment project. As of October 31, 2020, accrued interest totaled \$2,066. 2,479,434

Oak Hill Apartments was also financed with a note, secured by a deed of trust, originated on June 1, 2005, in the original amount of \$3,442,000 from the Home Investment Partnerships Program (HCD-HOME) through the California Department of Housing and Community Development. The note calls for simple interest at the rate of 3% per annum to accrue on the unpaid principal amount of the note. Payments are required pursuant to the terms of the mortgage note equal to residual receipts after the Developer Fee Note has been paid in full as well as Asset Management Fees not to exceed \$12,000 per year. Thereafter, all unpaid principal and interest are payable at the maturity date for this mortgage note on June 1, 2060. As of October 31, 2020, there were no payments made under the terms of this mortgage note. As of October 31, 2020, accrued interest totaled \$1,614,625. 3,442,000

\$ 10,402,235

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2020

CONTROLLED ENTITIES

Bevins Court is financed with a promissory note of \$100,000 from the County of Lake. The note matures in January 2044 and bears interest on unpaid principal of 2%. Interest is deferred from January 15, 2003, and will be repaid in 37 equal installments of \$4,236 beginning January 15, 2008. Annual payments of interest and principal shall be made from "residual receipts" as determined by HUD, or from the Project's own funds. No payments of principal are due before 2016. The promissory note is secured by the apartment project. As of October 31, 2020, accrued interest totaled \$21,718. \$ 100,000

PineGI North Shore, LLC is financed with a mortgage note in an original amount of \$1,879,000 with Orix Real Estate Capital, LLC, insured by HUD under Section 207 pursuant to Section 223(f). The mortgage note is payable in monthly installments of \$8,753 at an interest rate of 4.38% and a term of 35 years, maturing in March 2049. The mortgage liability of the Company is limited to the underlying value of the real estate collateral pledged plus other funds deposited with the mortgage lender. The mortgage note is secured by the apartment project, assignment of rents and certain escrows as defined in the security agreements. As of October 31, 2020, accrued interest totaled \$5,795. 1,700,112

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, 2020, accrued interest totaled \$294,405. 758,824

PineGI Lakeview Apartments is financed with a mortgage note in an original amount of \$2,326,900 with Lancaster Pollard Mortgage Company, insured by HUD under Section 207 pursuant to Section 223(f). The mortgage note is payable in monthly installments of \$10,840 at an interest rate of 4.38% and a term of 35 years, maturing in March 2049. The mortgage liability of the Company is limited to the underlying value of the real estate collateral pledged plus other funds deposited with the mortgage lender. The mortgage note is secured by the apartment project, assignment of rents and certain escrows as defined in the security agreements. As of October 31, 2020, accrued interest totaled \$7,844. 2,112,464

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2020

PineGI Jack Simpson, LLC is financed with a mortgage note in an original amount of \$2,110,800 with Orix Real Estate Capital, LLC, insured by HUD under Section 207 pursuant to Section 223(f). The mortgage note is payable in monthly installments of \$9,833 at an interest rate of 4.38% and a term of 35 years, maturing in March 2049. The mortgage liability of the Company is limited to the underlying value of the real estate collateral pledged plus other funds deposited with the mortgage lender. The mortgage note is secured by the apartment project, assignment of rents and certain escrows as defined in the security agreements. As of October 31, 2020, accrued interest totaled \$7,710. 1,909,844

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, 2020, accrued interest totaled \$114,112. 202,720

PineGI Highlands Village is financed with a mortgage note in an original amount of \$2,224,400 with Orix Real Estate Capital, LLC, insured by HUD under Section 207 pursuant to Section 223(f). The mortgage note is payable in monthly installments of \$10,362 at an interest rate of 4.38% and a term of 35 years, maturing in March 2049. The mortgage liability of the Company is limited to the underlying value of the real estate collateral pledged plus other funds deposited with the mortgage lender. The mortgage note is secured by the apartment project, assignment of rents and certain escrows as defined in the security agreements. As of October 31, 2020, accrued interest totaled \$6,860. 2,012,629

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2020

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, 2020, interest subsidy totaled \$112,689. As of October 31, 2020, accrued interest totaled \$1,005.

1,455,314

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, 2020, accrued interest totaled \$76.

64,399

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, 2020 accrued interest totaled \$952,069.

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, 2020, accrued interest totaled \$68,071.

200,000

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2020

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, 2020, accrued interest totaled \$9,396. 1,960,978

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. 1,147,464

Sunshine Manor is financed with a mortgage note of \$1,087,500 with Savings Bank of Mendocino County. The mortgage note bears interest at the rate of 5.75% per annum and is being repaid in 360 equal monthly installments of principal and interest of \$6,346 payable, commencing August 1, 2012 through August 1, 2042. This mortgage is secured by the project reserves and rental property. As of October 31, 2020, accrued interest totaled \$4,511. 941,529

Sunshine Manor is also financed with a promissory note from Rural Communities Housing Development Corporation. The note is non-interest bearing. The entire balance of principal is due and payable on August 16, 2067. The note is secured by a Second Deed of Trust. See Note 6 for seller financing note payable. 646,154

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, 2020, accrued interest totaled \$8,090. 1,688,265

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 6 for seller financing note payable. 1,823,801

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2020

Orchard Manor Apartments is financed with a mortgage note with Savings Bank of Mendocino County in the amount of \$700,000. The mortgage note bears interest at 5% with monthly installments of principal and interest of \$4,129 through January 2023 at which time a ballon payment for the outstanding balance and any accrued interest will be due and payable. The mortgage note is secured by the apartment complex. 688,904

Orchard Manor Apartments is also financed with a second mortgage note of \$1,934,815 with the United States Department of Agriculture, Farmers Home Administration under Section 515 of the National Housing Act of 1959. The mortgage note bears interest at 6% with monthly installments of principal and interest of \$10,188 through July 2037. The mortgage note is secured by the apartment complex. As of October 31, 2020 accrued interest totaled \$2,691. 1,740,360

Orchard Village Apartments is financed with a mortgage note with Savings Bank of Mendocino County in the amount of \$845,500. The mortgage note bears interest at 5% with monthly installments of principal and interest of \$4,987 through January 2023 at which time a ballon payment for the outstanding balance and any accrued interest will be due and payable. The mortgage note is secured by the apartment complex. 832,098

Orchard Village Apartments is also financed with a second mortgage note of \$1,135,741 with the United States Department of Agriculture, Farmers Home Administration under Section 515 of the National Housing Act of 1959. The mortgage note bears interest at 6% with monthly installments of principal and interest of \$10,188 through July 2037. The mortgage note is secured by the apartment complex. As of October 31, 2020 accrued interest totaled \$1,632. 1,055,535

River Gardens Apartments is financed with a mortgage note with Savings Bank of Mendocino County in the amount of \$808,000. The mortgage note bears interest at 5% with monthly installments of principal and interest of \$4,766 through January 2023 at which time a ballon payment for the outstanding balance and any accrued interest will be due and payable. The mortgage note is secured by the apartment complex. 795,192

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2020

River Gardens Apartments is also financed with a second mortgage note of \$1,135,741 with the United States Department of Agriculture, Farmers Home Administration under Section 515 of the National Housing Act of 1959. The mortgage note bears interest at 6% with monthly installments of principal and interest of \$10,188 through July 2037. The mortgage note is secured by the apartment complex. As of October 31, 2020 accrued interest totaled \$1,084.

	668,455
	27,492,598
Less: Seller financed notes payable eliminated in consolidation	(3,617,419)
	\$ 23,875,179

Changes in long-term debt for the year ended October 31, 2020 is as follows:

	Beginning Balance	Additions	Transfers	Reductions	Consolidating Entries	Ending Balance
Funds	\$ 3,114,974	\$ 776,969	\$ -	\$ 895,271	\$ -	\$ 2,996,672
Owned projects	10,626,100		-	223,865	-	10,402,235
Controlled entities	22,125,737	-	5,846,899	480,038	(3,617,419)	23,875,179
	\$ 35,866,811	\$ 776,969	\$ 5,846,899	\$ 1,599,174	\$ (3,617,419)	\$ 37,274,086

Aggregate maturities required on the mortgages and notes payable as of October 31, 2020 are as follows:

For the year ended October 31:	Funds	Owned	Controlled	Total
2021	\$ 2,365,729	\$ 206,081	\$ 382,841	\$ 2,954,651
2022	15,710	212,389	402,789	630,888
2023	16,389	219,087	2,565,818	2,801,294
2024	17,098	226,175	387,441	630,714
2025	17,839	233,677	409,984	661,500
Thereafter	563,907	9,304,826	19,726,306	29,595,039
	\$ 2,996,672	\$ 10,402,235	\$ 23,875,179	\$ 37,274,086

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2020

6. Seller Financing for Notes Receivable and Notes Payable

RCHDC provided seller financing with outstanding principal as of October 31, 2020 as follows:

Creekside Village	\$ 1,147,464
Sunshine Village	\$ 646,154
Walnut Village	\$ 1,823,801

As described in Note 5, 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 originally totaling \$725,805. The note receivable bears interest of 2.36%, 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.

7. Commitments and Contingencies

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

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

- A. Pine Gardens I, Inc. has the following ongoing obligations related to Clara Court, L.P. (Clara):
 - i. Pine Gardens I, Inc. is required to establish a separate Operating Reserve Account in the amount of \$105,000 for Clara. This reserve has been funded.
 - ii. Pine Gardens I, Inc. has pledged to lend Clara any operating loans to fund operating deficits incurred by Clara during the period commencing at rental achievement and expiring 60 months thereafter. No funds have been advanced to the Partnership pursuant to this agreement.
 - iii. Pine Gardens I, Inc. is required to make capital contributions to Clara to compensate the limited partner for any ongoing shortfall in the tax credits which are hereinafter expected to accrue for the benefit of the limited partner.
 - iv. Pine Gardens I, Inc. is required to make capital contributions for the portion of the Development Fee Note that remains unpaid by the thirteenth anniversary of the completion of the construction of Clara.

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2020

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

B. 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.
- 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.

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2020

- C. Pine Gardens I, Inc. has the following obligations related to McCarty Manor Associates, LP (the Partnership):
- i. Pine Gardens I, Inc. together with RCHDC, is required to maintain an aggregate net worth of not less than \$500,000 and liquidity of not less than \$250,000 exclusive of any interest in the Partnership.
 - ii. Pine Gardens II, Inc. (PGII), an unaffiliated entity that is funded by RCHDC, has agreed to make a subordinated Permanent Loan to the Partnership in the amount of \$700,000 at the long term Applicable Federal Rate for a term of 55 years commencing with the Investor's Contribution of its third installment of equity. PGII entered into a note payable agreement with McCarty Manor.
 - iii. Pine Gardens I, Inc. is required to purchase the limited partner's interest in the Partnership for the total amount of capital contributions contributed by the limited partner plus any expenses incurred by the limited partner, based upon the occurrence of various specified events related to the failure of the Partnership to achieve the anticipated results. Management believes that it is highly unlikely that Pine Gardens I, Inc. will have any liability related to this obligation.
 - iv. Pine Gardens I, Inc. is required to establish a separate Operating Reserve for the Partnership in the amount of \$200,000 out of the fourth installment of capital by the limited partner.
 - v. To the extent not otherwise funded from the Operating Reserve discussed above, Pine Gardens I, Inc. is required to make Operating Loans to the Partnership to fund any Operating Deficits throughout the Tax Credit Compliance period.
 - vi. To the extent funds are not otherwise available from other construction sources of funds for the Partnership, Pine Gardens I, Inc. shall be obligated to make Completion Loans to the Partnership for construction cost overruns through the date that the Partnership generates a 1.15 debt service coverage ratio for three consecutive months following the completion of construction.
 - vii. Pine Gardens I, Inc. is required to make a capital contribution to the Partnership in an amount equal to any Developer Fee that remains unpaid as of the twelfth anniversary of the Completion Date as defined, so that the Partnership has adequate resources to pay the remainder of the Developer Fee.
 - viii. Pine Gardens I, Inc. is required to make capital contributions that may be necessary to compensate the limited partner for any ongoing tax credit shortfalls that might occur over the course of the Tax Credit Compliance period.

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2020

- D. Pine Gardens I, Inc., as the sole member of Autumn Village LLC, and RCHDC have the following ongoing obligations related to Autumn Village Associates, LP (Autumn):
- i. RCHDC is required to fund any construction costs deficits and permanent financing deficits. No funds have been advanced to the Partnership pursuant to this agreement.
 - ii. RCHDC has pledged to lend Autumn any operating loans to fund operating deficits up to \$150,000 incurred by Autumn during the period beginning with stabilized occupancy and ending when Autumn has achieved a debt service coverage ratio of 1.15 or before on an annualized basis for a period approximating five years. No funds have been advanced to the Partnership pursuant to this agreement.
 - iii. Pine Gardens I, Inc. is required to make capital contributions for the portion of the Development Fee Note that remains unpaid by the thirteenth anniversary of the completion of the construction of Autumn.
 - iv. Pine Gardens I, Inc. is required to make capital contributions to Autumn to compensate the limited partner for any ongoing shortfall in the tax credits which are hereinafter expected to accrue for the benefit of the limited partner.
 - v. RCHDC is required to establish a separate Sponsor Pledged Reserve for Autumn in the amount of \$108,213. The reserve account was funded during the year ended October 31, 2014.
- E. Pine Meadows Corporation, as the sole member of Willow Terrace, LLC, and RCHDC have the following ongoing obligations related to Willow Terrace Associates, LP (Willow):
- i. RCHDC is required to fund any construction costs deficits and permanent financing deficits. No funds have been advanced to the Partnership pursuant to this agreement.
 - ii. RCHDC has pledged to lend Willow any operating loans to fund operating deficits up to \$130,000 incurred by Willow during the period beginning with stabilized occupancy and ending when Willow has achieved a debt service coverage ratio of 1.15 or before on an annualized basis for a period approximating five years. No funds have been advanced to the Partnership pursuant to this agreement.
 - iii. Pine Meadows Corporation is required to make capital contributions to Willow to compensate the limited partner for any ongoing shortfall in the tax credits and/or energy credits which are hereinafter expected to accrue for the benefit of the limited partner.

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2020

8. NeighborWorks America Grants

During the year ended October 31, 2019, RCHDC received grant funds from NeighborWorks America. The grants have been recognized in multiple funds and related corporations. The following provides a listing of the grants received:

<u>Grant type</u>	<u>Amount Received</u>	<u>Without Donor Resrictions</u>	<u>With Donor Resrictions</u>
With donor restrictions	\$ 75,000	\$ -	\$ 75,000
Expendable	291,200	291,200	-
Total NeighborWorks America grants received	<u>\$ 366,200</u>	<u>\$ 291,200</u>	<u>\$ 75,000</u>

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

	<u>Cash</u>	<u>Fixed Assets</u>	<u>Notes Receivable</u>	<u>Advances to Affiliates</u>	<u>Development Costs</u>	<u>Total</u>
Beginning of the year	\$ 200,000	\$ 1,115,500	\$ 350,000	\$ 469,800	\$ 150,000	\$ 2,285,300
Release from restrictions	(200,000)	(650,000)	-	-	(150,000)	(1,000,000)
Reconcile to NeighborWorks	-	(400,000)	-	-	-	(400,000)
Grants	<u>75,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>75,000</u>
End of the year	<u>\$ 75,000</u>	<u>\$ 65,500</u>	<u>\$ 350,000</u>	<u>\$ 469,800</u>	<u>\$ -</u>	<u>\$ 960,300</u>

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. As of October 31, 2020, RCHDC has \$38,258 in cash restricted for the self-insurance plan and accounts payable for amounts that were available to fund outstanding claims.

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2020

10. Defined Contribution Pension Plan

Effective January 1, 2013, RCHDC established a 401(k) plan that covers all employees who meet certain eligibility requirements. RCHDC matched approximately \$30,883 during the year ended October 31, 2020.

11. Net Assets With Donor Restrictions

Net assets with donor restrictions consisted of the following as of October 31, 2020:

Fair market value of land of \$135,000 purchased from the County of Lake for \$1 for use by Bevins Court Housing Corporation. The land is restricted for affordable housing in Lake County for a period of 40 years from the date of the grant.	\$ 135,000
Crescent City granted to RCHDC \$70,000 and \$85,000 during the years ended October 31, 2006 and 2008, respectively, to be used for rehabilitation of three low-income housing apartments in Crescent City, California. The housing projects must remain affordable for 55 years from the dates of the grants.	155,000
Revolving Development Fund (Fund 21) grant liens	1,093,872
Owned Projects grant liens	3,280,500
Controlled Entities grant liens	6,883,999
Notes receivable with funds obtained from Redevelopment Agency of Mendocino	100,000
Self-Help notes receivable and cash	502,072
Investment in nonconsolidated affiliates	200,000
Fixed assets	884,000
Advances to or investment in affiliates	269,800
Development costs	100,000
Total Net Assets With Donor Restrictions	\$ 13,604,243

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2020

The following is a summary of the grant liens as of October 31, 2020:

DEVELOPMENT FUND (FUND 21)

Lake County Redevelopment Agency note dated November 1, 2004, not to exceed \$250,000, secured by deed of trust on Collier Street property. Note balance increased by \$998,000 in 2009 to maximum balance of \$1,248,000. The maximum principal of \$626,872 has been drawn on later revised terms of the note. The note accrues simple interest at 2%. No payments or interest are due as long as the maker is not in default of an affordable housing covenant. After 10 years and each succeeding 5 years, 10% of the principal shall be reduced until the end of the 55 year term of the note. As of October 31, 2020, accrued interest totaled \$149,144.

\$ 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

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

\$ 1,093,872

OWNED PROJECTS

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

\$ 2,988,000

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2020

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

292,500

\$ 3,280,500

CONTROLLED PROJECTS

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

\$ 68,800

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

1,104,100

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

537,099

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

60,000

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2020

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

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

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

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

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

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2020

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

924,000

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

60,000

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

835,800

\$ 6,883,999

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2020

12. 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, 2020, the application of fair value techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value.

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

The table below presents the balances of assets measured at fair value by level within that hierarchy as of October 31, 2020:

	Total	Level 1	Level 2	Level 3
Land held for development and development costs	\$ 4,752,258	\$ -	\$ -	\$ 4,752,258

The following summarizes the activity for Level 3 investments for the year ended October 31, 2020:

Balance, Beginning of Year	\$ 4,083,578
Total net gains (loss) included in:	
Change in net assets	(219,547)
Purchases, sales, issuances and settlements, net	888,227
Balance, End of Year	\$ 4,752,258

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2020

13. Investment in Unconsolidated Entities

A financial summary of RCHDC's unconsolidated low-income housing limited partnership for and as of the year ended December 31, 2020 is as follows:

Assets:

Rental Property - net	\$ 33,934,218
Other assets	3,217,783
Total assets	<u>\$ 37,152,001</u>

Liabilities and Equity:

Mortgage debt	\$ 25,475,723
Other liabilities	5,226,894
Equity	6,449,384
Total liabilities and equity	<u>\$ 37,152,001</u>

Net rental income	\$ 2,600,774
Rental expenses	3,978,933
Net real estate loss	(1,378,159)
Other income	55,159
Net loss	<u>\$ (1,323,000)</u>

14. Functional Expenses

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

	<u>Program</u>	<u>Administrative</u>	<u>Total</u>
Administrative services	\$ 2,692,959	\$ 307,442	\$ 3,000,401
Utilities	763,699	6,830	770,529
Operating expenses	1,392,386	10,012	1,402,398
Taxes and insurance	723,029	85,178	808,207
Financial	1,407,164	-	1,407,164
Replacement reserve and residual receipt expenditures	88,813	-	88,813
Depreciation	1,437,365	12,400	1,449,765
Total	<u>\$ 8,505,415</u>	<u>\$ 421,862</u>	<u>\$ 8,927,277</u>

15. Current Concentration Due to Certain Conditions

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

16. Liquidity and Availability of Resources

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

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

17. Purchase of Limited Partner Interest

Effective April 1, 2020, Pine Meadows Corp., a related entity, purchased the limited partnership interest of Orchard River Associates, L.P for \$170,000. As a result of this transaction, RCHDC controls the general partner and limited partner interests and has consolidated Orchard River Associates, L.P. The following summarizes the assets and liabilities acquired on April 1, 2020.

Rural Communities Housing Development Corporation
Notes to the Consolidated Financial Statements - continued
Year ended October 31, 2020

Rental property	\$	6,387,852
Cash		847,695
Other assets		1,607,154
Total assets	\$	8,842,701
Mortgages and notes payable	\$	5,846,899
Other liabilities		171,438
Net assets without restrictions		2,824,264
	\$	8,842,601

18. Uncertainties Due to COVID

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, the federal government, and many state and local jurisdictions in the U.S. have declared states of emergency. It is anticipated that these impacts will continue for some time. There has been no immediate impact to the Project's operations. Future potential impacts may include disruptions or restrictions on the employees' ability to work or the tenants' ability to pay the required monthly rent as a result of job loss or other pandemic related circumstance. In addition, on August 31, 2020, the Department of Health and Human Services mandated a temporary halt in residential evictions to prevent the further spread of COVID-19. Changes to the operating environment may increase operating costs. The future effects of these issues are unknown.

19. Subsequent Events

Events that occur after the Consolidated Statement of Financial Position date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Consolidated Statement of Financial Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Consolidated Statement of Financial Position date require disclosure in the accompanying notes. Management evaluated the activity of RCHDC through April 27, 2021 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the Consolidated Financial Statements or disclosure in the Notes to the Consolidated Financial Statements.

SUPPLEMENTAL INFORMATION

Rural Communities Housing Development Corporation
Consolidating Schedule of Financial Position
October 31, 2020

Assets	Funds	Owned Projects	Controlled Entities	Consolidating Entries	Totals
Current Assets:					
Cash and equivalents	\$ 1,740,091	\$ 97,609	\$ 543,775	\$ -	\$ 2,381,475
Tenant accounts receivable	-	10,613	91,608	-	102,221
Tenant assistance accounts receivable	-	15,854	11,227	-	27,081
Other accounts receivable	82,121	-	-	-	82,121
Due from funds	-	-	408,074	(408,074)	-
Due from owned projects	395,814	-	-	(395,814)	-
Due from controlled entities	440,089	-	-	(440,089)	-
Due from related parties	682,119	-	661,525	-	1,343,644
Prepaid expenses	93,317	10,747	52,262	-	156,326
Total Current Assets	3,433,551	134,823	1,768,471	(1,243,977)	4,092,868
Deposits:					
Tenant security deposits held in trust	-	38,234	200,567	-	238,801
Tax and insurance impounds	-	30,402	97,698	-	128,100
Replacement reserves	29,973	639,250	3,981,474	-	4,650,697
Other reserves	19,988	244,844	362,512	-	627,344
Residual receipts reserves	-	32,222	1,195,836	-	1,228,058
Cash restricted for self-insurance plan	68,528	-	-	-	68,528
Total Deposits	118,489	984,952	5,838,087	-	6,941,528
Fixed Assets - Net	1,159,606	11,417,709	20,304,344	-	32,881,659
Other Assets:					
Long-term notes receivable	2,715,102	-	-	-	2,715,102
Developer notes receivable	822,769	-	-	-	822,769
Advances and investments in consolidated affiliates	128,000	-	332,937	(460,937)	-
Notes receivable from consolidated affiliates	3,617,419	-	-	(3,617,419)	-
Advances and investments in nonconsolidated affiliates	1,494,037	-	346,774	-	1,840,811
Land held for development	1,848,535	-	-	-	1,848,535
Development costs	2,903,723	-	-	-	2,903,723
Total Other Assets	13,529,585	-	679,711	(4,078,356)	10,130,940
Total Assets	\$ 18,241,231	\$ 12,537,484	\$ 28,590,613	\$ (5,322,333)	\$ 54,046,995

See Independent Auditor's Report.

Rural Communities Housing Development Corporation
Consolidating Schedule of Financial Position - continued
October 31, 2020

Liabilities and Net Assets	Funds	Owned Projects	Controlled Entities	Consolidating Entries	Totals
Current Liabilities:					
Accounts payable and accrued liabilities	\$ 267,412	\$ 26,783	\$ 224,230	\$ -	\$ 518,425
Residual receipts liability	-	30,722	999,454	-	1,030,176
Accrued interest payable	129,732	8,780	237,542	-	376,054
Due to funds	-	395,814	440,089	(835,903)	-
Due to controlled properties	408,074	-	-	(408,074)	-
Current portion of mortgages and notes payable	2,365,729	206,081	335,822	-	2,907,632
Deferred revenue	-	5,078	11,674	-	16,752
Total Current Liabilities	3,170,947	673,258	2,248,811	(1,243,977)	4,849,039
Long-Term Liabilities:					
Tenant security deposits	-	38,233	197,235	-	235,468
Accrued interest payable	537,144	2,181,381	1,269,527	-	3,988,052
Mortgages and notes payable - net	630,943	10,196,154	27,156,776	(3,617,419)	34,366,454
Less: unamortized debt issuance costs	-	(53,044)	(743,415)	-	(796,459)
Total Long-Term Liabilities	1,168,087	12,362,724	27,880,123	(3,617,419)	37,793,515
Total Liabilities	4,339,034	13,035,982	30,128,934	(4,861,396)	42,642,554
Net Assets (Deficit):					
Net assets (deficit) without donor restrictions	11,202,953	(3,945,498)	(8,996,320)	(460,937)	(2,199,802)
Net assets with donor restrictions	2,699,244	3,447,000	7,457,999	-	13,604,243
Total Net Assets (Deficit)	13,902,197	(498,498)	(1,538,321)	(460,937)	11,404,441
Total Liabilities and Net Assets	\$ 18,241,231	\$ 12,537,484	\$ 28,590,613	\$ (5,322,333)	\$ 54,046,995

See Independent Auditor's Report.

Rural Communities Housing Development Corporation
Consolidating Schedule of Activities and Changes in Net Assets
Year ended October 31, 2020

	<u>Funds</u>	<u>Owned Projects</u>	<u>Controlled Entities</u>	<u>Consolidating Entries</u>	<u>Totals</u>
Revenues					
Net tenant rents	\$ -	\$ 402,696	\$ 1,938,591	\$ -	\$ 2,341,287
Tenant assistance payments	-	609,483	2,940,372	-	3,549,855
Other rents	79,673	-	-	-	79,673
Grant income	486,089	-	-	-	486,089
Management fees and reimbursements	979,631	-	-	(459,212)	520,419
Operational revenue	1,176,860	-	-	-	1,176,860
Unrealized gain on land development	1,556,907	-	-	-	1,556,907
Other revenue	154,859	8,289	42,070	-	205,218
Total Revenues	<u>4,434,019</u>	<u>1,020,468</u>	<u>4,921,033</u>	<u>(459,212)</u>	<u>9,916,308</u>
Expenses					
Administrative services	2,049,611	165,569	785,221	-	3,000,401
Management fees	-	78,688	335,672	(414,360)	-
Bookkeeping and accounting fees	-	1,944	42,908	(44,852)	-
Utilities	34,152	141,871	594,506	-	770,529
Operating and maintenance:					
Operating expenses	50,056	173,023	1,179,318	-	1,402,397
Taxes and insurance	425,891	43,350	338,966	-	808,207
Financial	30,940	355,718	1,020,506	-	1,407,164
Total Expenses	<u>2,590,650</u>	<u>960,163</u>	<u>4,297,097</u>	<u>(459,212)</u>	<u>7,388,698</u>
Change in Net Assets from Operations	<u>1,843,369</u>	<u>60,305</u>	<u>623,936</u>	<u>-</u>	<u>2,527,610</u>
Non-Operating Revenue / (Expenses)					
Interest income	63,326	62	3,978	-	67,366
Replacement reserve and residual receipt expenditures	-	(88,813)	-	-	(88,813)
Depreciation	(61,999)	(437,991)	(949,775)	-	(1,449,765)
Total Non-Operating Revenue / (Expenses)	<u>1,327</u>	<u>(526,742)</u>	<u>(945,797)</u>	<u>-</u>	<u>(1,471,212)</u>
Change in Net Assets	1,844,696	(466,437)	(321,861)	-	1,056,398
Net Assets at the Beginning of the Year	12,057,501	(32,061)	(2,574,509)	(460,937)	8,989,994
Transfer of net assets for purchase of limited partner interest	-	-	1,358,049	-	1,358,049
Net Assets at the End of the Year	<u>\$ 13,902,197</u>	<u>\$ (498,498)</u>	<u>\$ (1,538,321)</u>	<u>\$ (460,937)</u>	<u>\$ 11,404,441</u>

See Independent Auditor's Report.

Rural Communities Housing Development Corporation
Consolidating Schedule of Cash Flows
Year ended October 31, 2020

	<u>Funds</u>	<u>Owned Projects</u>	<u>Controlled Entities</u>	<u>Consolidating Entries</u>	<u>Totals</u>
Cash Flows From Operating Activities					
Change in total net assets from operations	\$ 1,844,696	\$ (466,437)	\$ (321,861)	\$ -	\$ 1,056,398
Adjustments to Reconcile Changes in Net Assets to Net Cash From Operating Activities					
Net present value of notes receivable	3,770	-	-	-	3,770
Increase (decrease) in long-term accrued interest	36,538	224,022	114,391	-	374,951
Depreciation	61,999	437,991	949,775	-	1,449,765
Amortization of debt issuance costs	-	707	25,704	-	26,411
Unrealized gain on land development	(1,556,907)	-	-	-	(1,556,907)
Decrease (Increase) in:					
Net tenant accounts receivable	-	(5,227)	(71,398)	-	(76,625)
Tenant assistance accounts receivable	-	(8,519)	(5,984)	-	(14,503)
Other accounts receivable	92,030	8,319	316	-	100,665
Due from owned properties	(7,114)	-	-	7,114	-
Due from controlled entities	(11,439)	-	-	11,439	-
Prepaid expenses	(41,746)	8,882	14,692	-	(18,172)
Increase (Decrease) in:					
Accounts payable and accrued liabilities	(8,875)	(7,778)	(3,787)	-	(20,440)
Residual receipts liability	-	12,748	94,909	-	107,657
Accrued interest payable	(7,686)	(672)	11,214	-	2,856
Due to funds	-	7,114	11,439	(18,553)	-
Deferred revenue	-	3,597	8,080	-	11,677
Net Cash From Operating Activities	<u>405,266</u>	<u>214,747</u>	<u>827,490</u>	<u>-</u>	<u>1,447,503</u>
Cash Flows From Investing Activities					
Purchase of fixed assets	(96,074)	(43,815)	(163,846)	-	(303,735)
Increase in due from related parties	(169,565)	-	-	-	(169,565)
Increase in long-term notes receivable	(194,754)	-	-	-	(194,754)
Developer notes receivable	(325,115)	-	-	-	(325,115)
Increase in advances and investments in nonconsolidated affiliates	(170,000)	-	-	-	(170,000)
Proceeds on sale of developed lots	970,177	-	-	-	970,177
Land held for development and development costs	(81,950)	-	-	-	(81,950)
Net Cash From Investing Activities	<u>(67,281)</u>	<u>(43,815)</u>	<u>(163,846)</u>	<u>-</u>	<u>(274,942)</u>

See Independent Auditor's Report.

Rural Communities Housing Development Corporation
Consolidating Schedule of Cash Flows - continued
Year ended October 31, 2020

	<u>Funds</u>	<u>Owned Projects</u>	<u>Controlled Entities</u>	<u>Consolidating Entries</u>	<u>Totals</u>
Cash Flows From Financing Activities					
Notes receivable from consolidated affiliates	\$ 132,957	\$ -	\$ -	\$ (132,957)	\$ -
Principal payments on mortgages and notes payable	(895,271)	(223,865)	(480,038)	132,957	(1,466,217)
Proceeds from notes payable	776,969	-	-	-	776,969
Net Cash From Financing Activities	<u>14,655</u>	<u>(223,865)</u>	<u>(480,038)</u>	<u>-</u>	<u>(689,248)</u>
Net Change in Cash and Restricted Cash	352,640	(52,933)	183,606	-	483,313
Cash in - purchase of limited partner interest	-	-	847,695	-	847,695
Cash and Restricted Cash - Beginning of Year	<u>1,505,940</u>	<u>1,135,494</u>	<u>5,350,561</u>	<u>-</u>	<u>7,991,995</u>
Cash and Restricted Cash - End of Year	<u>\$ 1,858,580</u>	<u>\$ 1,082,561</u>	<u>\$ 6,381,862</u>	<u>\$ -</u>	<u>\$ 9,323,003</u>
Supplemental Disclosures					
Amounts paid for interest	<u>\$ 2,088</u>	<u>\$ 131,661</u>	<u>\$ 869,197</u>	<u>\$ -</u>	<u>\$ 1,002,946</u>
Non-Cash Investing Activities					
Capitalized interest	<u>\$ 93,550</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 93,550</u>

See Independent Auditor's Report.

Rural Communities Housing Development Corporation
Schedule of Expenditures of Federal Awards
Year ended October 31, 2020

Federal Programs:		Funds	Owned Projects	Controlled Entities	Total
U.S. Department of Agriculture:					
Farm Labor Housing Loans and Grants	10.405	\$ -	\$ 2,612,334	\$ -	\$ 2,612,334
Rural Rental Housing Loans (Section 515 and 412)	10.415	-	778,891	1,456,687	2,235,578
Rural Self-Help Housing Technical Assistance (Section 523)	10.420	107,389	-	-	107,389
Rural Rental Assistance Payments	10.427	-	225,371	41,970	267,341
Guaranteed Rural Rental Housing Program (Section 538)	10.438	-	689,636	-	689,636
Community Facilities Loans and Grants	10.766	610,346	-	-	610,346
Total U.S. Department of Agriculture		<u>717,735</u>	<u>4,306,232</u>	<u>1,498,657</u>	<u>6,522,624</u>
U.S. Department of Housing and Urban Development:					
Mortgage Insurance Rental Housing	14.134	-	-	7,874,406	7,874,406
Supportive Housing For the Elderly (Section 202)	14.157	-	23,888	4,199,100	4,222,988
Project Rental Assistance Contract	14.157	-	-	234,301	234,301
Supportive Housing for Person with Disabilities (Section 811)	14.181	-	-	1,940,009	1,940,009
Community Development Block Grant	14.228	-	-	537,099	537,099
Home Investment Partnership Program (HOME) (Pass-Through California Department of Housing & Community Dev)	14.239	-	6,298,105	3,949,101	10,247,206
Section 8 Cluster					
Section 8 Housing Assistance Payments Program (Pass-Through Contract Administrator)	14.195	-	384,112	2,282,020	2,666,132
Total Section 8 Cluster		<u>-</u>	<u>384,112</u>	<u>2,282,020</u>	<u>2,666,132</u>
Total U.S. Department of Housing and Urban Development		<u>-</u>	<u>6,706,105</u>	<u>21,016,036</u>	<u>27,722,141</u>
NeighborWorks America					
Expendable Grants	21.000	291,200	-	-	291,200
Donor Restricted Capital Grants	21.000	75,000	-	-	75,000
Total NeighborWorks America		<u>366,200</u>	<u>-</u>	<u>-</u>	<u>366,200</u>
Total Federal Awards Expended		<u>\$ 1,083,935</u>	<u>\$ 11,012,337</u>	<u>\$ 22,514,693</u>	<u>\$ 34,610,965</u>

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Rural Communities Housing Development Corporation and Affiliates under programs of the federal government for the year ended October 31, 2020.

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

See Independent Auditor's Report.

Rural Communities Housing Development Corporation
Schedule of Expenditures of Federal Awards - continued
Year ended October 31, 2020

2. Schedule of Significant Accounting Policies

- a) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- b) Rural Communities Housing Development Corporation and Affiliates has elected not to use the 10 percent de minimus indirect cost rate as allowed under the Uniform Guidance.
- c) The outstanding balance of loan and loan guarantee programs at October 31, 2019 with continuing compliance requirements which are reported as federal expenditures on the accompanying Schedule of Expenditures of Federal Awards was \$29,970,282.

See Independent Auditor's Report.



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

To the Board of Directors of
Rural Communities Housing Development Corporation

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Rural Communities Housing Development Corporation and Affiliates (the Corporation), which comprise the consolidated statement of financial position as of October 31, 2020, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 27, 2021.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Tidwell Group, LLC

Columbus, Ohio
April 27, 2021



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

To the Board of Directors of
Rural Communities Housing Development Corporation

Report on Compliance for Each Major Federal Program

We have audited Rural Communities Housing Development Corporation and Affiliates' (the Corporation) compliance with the compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on the Corporation's major federal programs for the year ended October 31, 2020. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Corporation's major federal programs based on our audit of the compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Corporation's compliance.

Opinion on Each Major Federal Program

In our opinion, the Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended October 31, 2020.

Report on Internal Control Over Compliance

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

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

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

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

Tidwell Group, LLC

Columbus, Ohio
April 27, 2021

Rural Communities Housing Development Corporation
 Schedule of Findings and Questioned Costs
 Year ended October 31, 2020

Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	<i>unmodified</i>		
Internal control over financial reporting:			
Material weakness identified?	_____ Yes	_____ <u>x</u> No	
Significant deficiency identified not considered to be material weaknesses?	_____ Yes	_____ <u>x</u> No	
Noncompliance material to financial statements noted?	_____ Yes	_____ <u>x</u> No	

Federal Awards

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

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.405	Farm Labor Housing Loans and Grants
10.415	Rural Rental Housing Loans
14.134	Mortgage Insurance Rental Housing

Dollar threshold used to distinguish between Type A and Type B programs:	\$1,038,389
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Auditee qualified as low-risk auditee?	_____ <u>x</u> Yes	_____ No
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Rural Communities Housing Development Corporation
Schedule of Findings and Questioned Costs - continued
Year ended October 31, 2020

Findings – Financial Statements Audit

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

Federal Award Findings and Questioned Costs

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

Prior Year Findings

None reported.