

New Hope Community Development Corporation

BOARD OF DIRECTORS

Lisa A. Baker, Executive Director

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DATE: August 6, 2009
TO: New Hope CDC Board of Directors
FROM: Lisa A. Baker, Executive Director
By: Mark Stern, Finance Director
SUBJECT: **Receive and Approve the FY 2007-2008 Audit for Cottonwood Meadows Apartments**

RECOMMENDED ACTIONS:

That the Board of Directors receive and approve the FY 2007-2008 audit for Cottonwood Meadows Apartments.

BACKGROUND / DISCUSSION

The Cottonwood Meadows Apartments were originally built with a loan from the California Department of Housing and Community Development (HCD) Rental Housing Construction Program (RHCP). The Cottonwood Meadows Apartments, the primary business activity of the New Hope Community Development Corporation, contains forty-seven (47) units, fourteen (14) of which are assisted by the HCD and must be rented to very low income and other low income individuals at rental rates established by HCD. The remaining thirty-three (33) units are rented at market rates. Terms of the agreement with HCD require a separate audit of the Cottonwood Meadows Apartments.

New Hope CDC is included as a component unit in Yolo County Housing's single audit that was approved at the May 7, 2009 meeting of the YCH Board but that audit also includes the activity applicable to the Kentucky property that was sold during the 2007-2008 audit period. That activity has been stripped out of this separate audit HCD requires.

FISCAL IMPACT

This audit carries no additional fiscal impact to the agency.

CONCLUSION:

Staff recommends that the Board receive and approve the audit as submitted.

Attachment: FY 2007-2008 Audit

**NEW HOPE COMMUNITY DEVELOPMENT CORPORATION
COTTONWOOD MEADOWS ENTERPRISE FUND
CONTRACT NO. 83-RHC-141
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008
(Including Auditors' Report Thereon)**

NEW HOPE COMMUNITY DEVELOPMENT CORPORATION
COTTONWOOD MEADOWS ENTERPRISE FUND
CONTRACT NO. 83-RHC-141
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Housing Authority of the
County of Marin
San Rafael, California

We have audited the accompanying financial statements of the Cottonwood Meadows Enterprise Fund of the New Hope Community Development Corporation as of and for the years ended June 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the New Hope Community Development Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements present only the Cottonwood Meadows Enterprise Fund and do not purport to, and do not, present fairly the financial position of the New Hope Community Development Corporation as of June 30, 2008 and 2007, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cottonwood Meadows Enterprise Fund of the New Hope Community Development Corporation, as of June 30, 2008 and 2007, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

NHDC is a component unit of Yolo County Housing.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2009, on our consideration of the New Hope Community Development 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 or on compliance. That report is an integral part of an audit performed

in accordance with *Government Auditing Standards* and should be considering in assessing the results of our audit.

Our audit was performed to form an opinion on the financial statement of the Cottonwood Meadows Enterprise Fund of the New Hope Community Development Corporation. The accompanying Statement of Revenue, Expenses, and Changes in Unrestricted Net Assets - Budget to Actual, shown as supplemental information, is presented for the purpose of additional analysis as required by the State of California, Housing and Community Development, and is not a required part of these financial statements. The Statement of Revenue, Expenses, and Changes in Unrestricted Nets Assets - Budget to Actual has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

March 25, 2009

**NEW HOPE COMMUNITY DEVELOPMENT CORPORATION
COTTONWOOD MEADOWS ENTERPRISE FUND
CONTRACT NO. 83-RHC-141
STATEMENT OF NET ASSETS
JUNE 30,**

<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
Current assets:		
Cash (Note 2)	\$ 48,220	\$ 9,786
Due from other funds (Note 10)	847,143	903,629
Tenant accounts receivable	16	182
Accounts receivable interest	-	12,081
Prepaid expenses	5,599	13,109
Total current assets	<u>900,978</u>	<u>938,787</u>
Restricted assets:		
Restricted cash (Note 2 & 3)	164,028	160,651
Capital assets (Note 4):		
Land, structures, and equipment (net of accumulated depreciation of \$294,637 and \$249,308)	1,394,458	1,439,787
Loan fees (net of amortization \$6,479 and \$1,766)	<u>22,957</u>	<u>27,670</u>
Total assets	<u><u>\$ 2,482,421</u></u>	<u><u>\$ 2,566,895</u></u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable - vendors	\$ 718	\$ -
Due to HCD - excess program payments (Note 6)	5,079	31,182
Current portion of compensated absences	705	320
Interest payable	5,568	7,028
Current portion of long-term debt (Note 5)	<u>41,824</u>	<u>41,089</u>
Total current liabilities	53,894	79,619
Payable from restricted assets:		
Security deposits	19,543	19,169
Noncurrent liabilities:		
Long-term portion of compensated absences	2,117	959
Long-term debt (Note 5)	<u>2,130,222</u>	<u>2,170,220</u>
Total liabilities	<u>2,205,776</u>	<u>2,269,967</u>
Net assets (Note7):		
Invested in capital assets, net of related debt	(783,155)	(778,550)
Restricted	159,044	139,659
Unrestricted	<u>900,756</u>	<u>935,819</u>
Total net assets	<u>276,645</u>	<u>296,928</u>
Total liabilities and net assets	<u><u>\$ 2,482,421</u></u>	<u><u>\$ 2,566,895</u></u>

The accompanying independent auditors' report and notes are an integral part of this statement.

**NEW HOPE COMMUNITY DEVELOPMENT CORPORATION
COTTONWOOD MEADOWS ENTERPRISE FUND
CONTRACT NO. 83-RHC-141
STATEMENT OF INCOME, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30,**

	<u>2008</u>	<u>2007</u>
Operating revenue:		
Rent	\$ 300,413	\$ 285,689
Collection loss	(1,633)	-
Other	<u>3,211</u>	<u>4,862</u>
Total operating revenue	<u>301,991</u>	<u>290,551</u>
Operating expenses:		
Management Fee	19,320	19,320
Administrative	65,995	74,345
Utilities	27,371	25,613
Maintenance	38,729	36,569
Insurance & Taxes	22,229	30,180
Depreciation (Note 4)	<u>45,329</u>	<u>45,329</u>
Total operating expenses	<u>218,973</u>	<u>231,356</u>
Operating Income (loss)	83,018	59,195
Nonoperating revenue (expense):		
HCD annuity (Note 8)	12,553	1,366
Interest on restricted funds	2,935	3,755
Interest on unrestricted funds	783	1,309
Interest expense (Note 5)	(101,689)	(107,719)
Excess program payments (Note 6)	(5,079)	(31,182)
Amortization of Loan costs	<u>(4,711)</u>	<u>(1,177)</u>
Net loss before transfers	(12,190)	(74,453)
Operating transfer in	<u>-</u>	<u>23,342</u>
Net loss	<u>(12,190)</u>	<u>(51,111)</u>
Net assets - beginning of year, as originally stated	296,928	348,039
Prior period adjustments (Note 9)	<u>(8,092)</u>	<u>-</u>
Net assets - beginning of year restated	<u>288,836</u>	<u>348,039</u>
Net assets - end of year	<u>\$ 276,646</u>	<u>\$ 296,928</u>

The accompanying Independent Auditors' Report and notes are an integral part of this statement.

NEW HOPE COMMUNITY DEVELOPMENT CORPORATION
COTTONWOOD MEADOWS ENTERPRISE FUND
CONTRACT NO. 83-RHC-141
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30,

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Tenant receipts	\$ 288,235	292,495
Other receipts	2,297	91,718
Payroll and benefit expenditures	(42,377)	(60,987)
Administrative expenditures	(12,208)	(12,966)
Utility expenditures	(27,371)	(25,613)
Maintenance expenditures	(26,257)	(36,569)
Insurance and taxes expenditures	<u>(14,718)</u>	<u>(30,089)</u>
Net cash provided by operating activities	<u>167,601</u>	<u>217,989</u>
Cash flows from noncapital financing activities:		
Operating grants received	12,553	1,366
Funds returned to the State	(13,181)	-
Interfund transactions	<u>31,533</u>	<u>42,409</u>
Net cash provided (used) by noncapital financing activities	<u>12,905</u>	<u>43,775</u>
Cash flows from capital financing activities:		
Principal paid on debt	(39,264)	(37,381)
Interest paid on debt	<u>(103,149)</u>	<u>(105,032)</u>
Net cash provided (used) by capital financing activities	<u>(142,413)</u>	<u>(142,413)</u>
Cash flows from investing activities:		
Interest on restricted cash	2,256	3,755
Interest on unrestricted cash	<u>1,462</u>	<u>1,309</u>
Net cash provided (used) by investing activities	<u>3,718</u>	<u>5,064</u>
Net change in cash	41,811	124,415
Cash at beginning of year	<u>170,437</u>	<u>46,022</u>
Cash at end of year	<u>\$ 212,248</u>	<u>\$ 170,437</u>
Unrestricted cash	\$ 48,220	\$ 9,786
Restricted cash	<u>164,028</u>	<u>160,651</u>
	<u>\$ 212,248</u>	<u>\$ 170,437</u>

NEW HOPE COMMUNITY DEVELOPMENT CORPORATION
COTTONWOOD MEADOWS ENTERPRISE FUND
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30,

(Continued)

	2008	2007
Reconciliation of operating income to net cash used by operating activities:		
Operating income	\$ 83,018	\$ 59,195
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense	45,329	45,329
Interprogram expense	24,953	19,320
Prior period adjustments	(8,092)	
(Increase) decrease in:		
Tenant accounts receivable (net)	166	226
Accounts receivable - other	-	124,156
Interest receivable	12,081	(12,081)
Prepaid expenses	7,510	91
Increase (decrease) in:		
Accounts payable vendors	718	(23,015)
Tenant security deposits	374	7,049
Compensated absences	1,544	392
Deferred Revenue	-	(2,673)
Net cash provided by operating activities	\$ 167,601	\$ 217,989

The accompanying Independent Auditors' Report and notes are an integral part of this statement.

**NEW HOPE COMMUNITY DEVELOPMENT CORPORATION
COTTONWOOD MEADOWS ENTERPRISE FUND
CONTRACT NO. 83-RHC-141
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Information

The New Hope Community Development Corporation (NHCDC) is a 501(c)(3) non-profit corporation created to develop affordable housing and community based economic development ventures.

NHCDC's primary business activity is the operation of the Cottonwood Meadows Apartments. These apartments were originally built with a deferred payment loan that was provided by the California Department of Housing and Community Development (HCD) under the Rental Housing Construction Program (RHCP). The complex contains forty-seven units, fourteen of which are assisted by HCD and must be rented to very low and other low income families and individuals at rent rates established by HCD. The other thirty-three units are rented at market rates.

NHCDC's Board of Directors is made up of the same persons as the Authority's Board of Commissioners. Therefore, NHCDC is considered to be a blended component unit of Yolo County Housing (YCH) (formally known as the Housing Authority of the County of Yolo). The Cottonwood Meadows Apartments Project's annual budget must be approved by HCD, YCH's Board of Commissioners and NHCDC's Board of Directors.

B. Basis of Presentation

The financial statements include only the accounts and transactions of the New Hope Community Development Corporation's (NHCDC) Cottonwood Meadows Enterprise Fund. NHCDC administers an RHCP housing program and a commercial development. The commercial property was sold November 30, 2007. The financial statements are not intended to present the financial position of NHCDC as a whole and the changes in its financial position and cash flows in conformity with accounting principles generally accepted in the United States of America.

The Cottonwood Meadows Apartments Project is reported as a Proprietary Fund Type, Enterprise Fund. Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Enterprise Funds are also used when the governing body has decided that periodic determination of

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Note 1 (continued)

(Continued)

revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

C. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

The Proprietary Fund Types are accounted for on an economic resources measurement focus using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recorded at the time liabilities are incurred. Under this basis of accounting and measurement focus, NHCDC applies (a) all GASB pronouncements and (b) FASB Statement and Interpretations, APB opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

When NHCDC incurs an expense for which both restricted and unrestricted resources may be used, it is NHCDC's policy to use restricted resources first and then unrestricted resources as needed. Any use of restricted funds for this program requires the prior approval of HCD.

D. Capital Assets

Typically, capital assets are valued at historical cost and contributed capital assets are recorded at fair market value at the time received. The capital assets associated with the Cottonwood Meadows Enterprise Fund were valued based on historical costs.

Capital assets acquired for Proprietary Funds are capitalized in the respective funds to which they apply. Depreciation of exhaustible capital assets used by Proprietary Funds is charged as an expense against operations, and accumulated depreciation is reported on the Proprietary Fund's Statement of Net Assets. Depreciation has been provided over the estimated useful lives using the straight-line method of depreciation. Structures are being depreciated over a useful life of forty years, furniture and other equipment over seven years.

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Note 1 (continued)

(Continued)

E. Net Assets

Net assets represent the difference between assets and liabilities. Net assets consist of investments in capital assets, net of debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets (including accrued interest). Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

F. Operating Revenue and Expenses

Proprietary funds distinguish *operating* revenue and expenses from *nonoperating* items. Operating revenues and expenses result from providing goods and services related to the fund's ongoing operations. The principal operating revenue of this enterprise fund is rental charges. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. All revenue and expenses not meeting these definitions are reported as nonoperating revenue and expenses.

G. Income Taxes

NHCDC is exempt from Federal Income and California Franchise Taxes.

H. Encumbrances

Encumbrance accounting is not employed by NHCDC.

I. Grant Restrictions

NHCDC has received loans and grants from the California Department of Housing and Community Development to build and maintain the Cottonwood Meadows Apartments. These loans and grants require that only individuals and families that meet various income, age, and employment standards be housed or aided.

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Note 2 - CASH AND CASH EQUIVALENTS

All cash and cash equivalents held by NHCDC are maintained in checking accounts with First Northern Bank. The California Government Code requires California banks and savings and loan associations to secure NHCDC's deposits not covered by federal deposit insurance by pledging mortgages or government securities as collateral. The market value of mortgages must equal at least 150% of the face value of deposits. The market value of government securities must equal at least 110% of the face value of deposits. Such collateral must be held in the pledging bank's trust department in a separate depository in an account for NHCDC. YCH has executed a "General Depository Agreement" with First Northern Bank. It states that, "any portion of PHA funds not insured by a Federal insurance organization shall be fully (100%) and continuously collateralized with specific and identifiable U.S. Government or Agency securities prescribed by HUD." NHCDC is a blended component unit of YCH.

Note 3 - RESTRICTED CASH

Restricted cash consists of funds that are being held for the replacement of the Cottonwood Meadows RHCP project or funds being held for the benefit of the Project's tenants. The balances are as follows:

	<u>6/30/2008</u>	<u>6/30/2007</u>
Replacement reserves	\$ 142,594	\$ 139,659
Security deposits	21,434	20,992
	<u>\$ 164,028</u>	<u>\$ 160,651</u>

The amounts held for the replacement of the RHCP program cannot be disbursed without the approval of the California Department of Housing and Community Development. This amount is offset by restricted net assets.

The amounts of security deposits held on behalf of tenants are offset by amounts payable from restricted net assets. Cash exceeds the amounts owed to tenants for security deposits.

**NEW HOPE COMMUNITY DEVELOPMENT CORPORATION
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(Continued)

Note 4 - CAPITAL ASSETS

The following is a summary of the Cottonwood Meadows project's changes in capital assets and changes in depreciation for the two fiscal years ended June 30, 2008:

	Balance 6/30/06	Additions	Deletions	Balance 6/30/07	Additions	Balance 6/30/08
Historical Cost:						
Land	\$ 239,463	\$ -	\$ -	\$ 239,463	-	\$ 239,463
Buildings	1,372,522	-	-	1,372,522	-	1,372,522
Equipment	77,110	-	-	77,110	-	77,110
Total	<u>\$ 1,689,095</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,689,095</u>	<u>\$ -</u>	<u>\$ 1,689,095</u>
Accumulated Depreciation:						
Buildings	\$ (154,409)	\$(34,313)	\$ -	\$ (188,722)	\$ (34,313)	\$ (223,035)
Equipment	(49,570)	(11,016)	-	(60,586)	(11,016)	(71,602)
Total	<u>\$ (203,979)</u>	<u>\$ (45,329)</u>	<u>\$ -</u>	<u>\$ (249,308)</u>	<u>\$ (45,329)</u>	<u>\$ (294,637)</u>
Total capital assets, net:						
Land	\$ 239,463	\$ -	\$ -	\$ 239,463	-	\$ 239,463
Buildings	1,218,113	(34,313)	-	1,183,800	(34,313)	1,149,487
Equipment	27,540	(11,016)	-	16,524	(11,016)	5,508
Total	<u>\$ 1,485,116</u>	<u>\$ (45,329)</u>	<u>\$ -</u>	<u>\$ 1,439,787</u>	<u>\$ (45,329)</u>	<u>\$ 1,394,458</u>

NHCDC calculates depreciation on a straight-line basis with the useful lives of capital assets being - 40 years for structures and 7 years for the furniture and equipment.

Note 5 - LONG-TERM DEBT

The following is a summary of the changes in long-term debt for the two fiscal years ended June 30, 2008:

	Balance 6/30/06	Payments	Balance 6/30/07	Payments	Balance 6/30/08	Short-term Portion
Mortgage	\$ 1,879,890	\$ (37,381)	\$ 1,842,509	\$ (39,264)	1,803,245	\$ 41,824
HCD	368,800	-	368,800	-	368,800	-
Total	<u>\$ 2,248,690</u>	<u>\$ (37,381)</u>	<u>\$ 2,211,309</u>	<u>\$ (39,264)</u>	<u>\$ 2,172,045</u>	<u>\$ 41,824</u>

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(Continued)

Note 5 (continued)

Following is a schedule of debt payment requirements to maturity for the mortgage:

<u>Year ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 41,824	\$ 100,589	\$ 142,413
2010	44,243	98,170	142,413
2011	46,803	95,610	142,413
2012	49,510	92,903	142,413
2013	52,375	90,038	142,413
2014-2018	310,985	401,082	712,067
2019-2023	411,968	300,099	712,067
2024-2028	545,742	166,325	712,067
2029-2031	299,795	20,099	319,894
	<u>\$ 1,803,245</u>	<u>\$ 1,364,915</u>	<u>\$ 3,168,160</u>

On October 23, 2001, the New Hope Community Development Corporation (NHCDC), a California non-profit public benefit corporation, purchased property known as the Cottonwood Meadows Apartments (47 units). These apartments were originally built with funding from the California Department of Housing and Community Development (HCD) under the Rental Housing Construction Program (RHCP). To acquire this property, YCH was required to assume the RHCP regulatory agreement and a \$368,800 note with HCD. Among other things, the regulatory agreement restricts the occupancy of 14 of the apartments to tenants with certain specified income levels and requires the establishment and maintenance of replacement and operating reserves, including annual deposits into each. The HCD note is deferred until 2017 at which time the principal balance of \$368,800 is due.

On December 22, 2005, NHCDC refinanced the property known as Cottonwood Meadows Apartments. NHCDC borrowed \$1,900,000 from First Northern Bank and paid off the \$1.2 million loan with Yolo Community Bank. This loan is amortized over 25 years, requires monthly payments of \$11,868 and earns interest at a rate of 5.56% per annum. Interest of \$101,689 and \$107,719 was incurred during the fiscal years ended June 30, 2008 and 2007, respectively; while \$103,149 and \$105,032 was paid. The differences being the change in interest payable during the fiscal years. Loan fees of \$29,437 were paid to acquire this loan. These fees are being amortized over the life of the loan. The unamortized amount of \$22,957 and \$27,670 are reported as noncurrent assets as of June 30, 2008 and 2007, respectively.

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(Continued)

Note 6 - EXCESS PROGRAM PAYMENTS

Excess program payments (EPPs) are funds that are payable to HCD. When project revenues exceed approved project expenses, EPPs are generated. During the fiscal year ended June 30, 2008, changes in the amount due HCD were as follows:

EPPs as of June 30, 2006, per HCD			\$ 31,182
EPPs recognized during 2007:			
Revenue - Assisted units		39,274	
Subsidy received		1,366	
Expenses - assisted units actual	57,118		
budget	<u>42,787</u>	<u>(42,787)</u>	<u>-</u>
Balance at June 30, 2007			31,182
Installment payments made to HCD			(31,182)
EPPs recognized during 2008:			
Revenue - Assisted units		49,155	
Subsidy received		12,553	
Expenses - assisted units actual	56,629		
budget	<u>61,834</u>	<u>(56,629)</u>	<u>5,079</u>
Balance at June 30, 2008			<u>\$ 5,079</u>

As of the date of this report, HCD had not approved the *Annual Sponsor Certification* for the fiscal year ended June 30, 2008. Therefore, the above figures do not include adjustments that may be made, if any, by HCD upon approval of the *Annual Sponsor Certification*.

Note 7 - NET ASSETS

A. Investments in Capital Assets, Net of Related Debt

Investments in capital assets, net of related debt consists of the following:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Capital assets, net of accumulated depreciation (Note 3)	\$ 1,394,458	\$ 1,439,787
Interest payable on L/T debt	(5,568)	(7,028)
Long-term debt (Note 5)	<u>(2,172,045)</u>	<u>(2,211,309)</u>
Investment in capital assets, net of related debt	<u>\$ (783,155)</u>	<u>\$ (778,550)</u>

**NEW HOPE COMMUNITY DEVELOPMENT CORPORATION
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(Continued)

Note 7 (continued)

Investments in capital assets, net of related debt, is in deficit due to the fact that NHCDC refinanced this property in 2005 for more than its historical cost. This is aggregated by the fact that assets are being depreciated faster than the loan is being paid off, due to the difference in the methods of reduction - straight-line depreciation vs. loan amortization.

B. Restricted Net Assets

Net assets are reported as restricted when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The project's restricted net assets consists of replacement reserves required to be maintained by the regulatory agreement. The activity for the year was as follows:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Beginning balance	\$ 139,659	\$ 131,571
Deposits:		
a. Principal additions	16,450	4,601
b. Interest earned on the account	2,935	3,487
Withdrawals	-	-
Ending balance	<u>\$ 159,044</u>	<u>\$ 139,659</u>

The funds are held in a business interest checking account with First Northern Bank. As of June 30, 2008, reserves are not fully funded. The balance of the account as of June 30, 2008 was \$142,594. The accounts earns interest at a rate of 1% per annum.

Note 8 - RENTAL ANNUITY

Rental annuity in the amount of \$12,553 and 1,366 was approved and received during the fiscal years ended June 30, 2008 and 2007, respectively.

Note 9 - PRIOR PERIOD ADJUSTMENTS

As of June 30, 2007, the Project held receivables in the amount of \$12,081. During the current fiscal year, these receivables were determined to be stale and removed from the books of accounts, decreasing net assets at that time.

During the current fiscal year, YCH researched the difference between the general ledger and the subsidiary ledger for accounts payable vendors. It was

**NEW HOPE COMMUNITY DEVELOPMENT CORPORATION
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(Continued)

Note 9 (continued)

determined that an adjustment of \$106,956 was needed to bring the two into agreement as of July 1, 2007. No specific issue could be identified to explain the difference. Since the difference could not be identified, an allocation was made to all active funds. The allocation was based on expenses that were run through payables during the current fiscal year. Using this rationale, the Cottonwood Meadows Enterprise Fund was credited with \$3,989, increasing net assets.

These two adjustments had the net affect of decreasing net assets as of July 1, 2007 by \$8,092.

Note 10 - OTHER MATTERS

NHCDC is a blended component unit of YCH. As of July 1, 2006, NHCDC owned two properties - Cottonwood Meadows RHCP project and a commercial property located on Kentucky Street in Woodland, California. This report contains only the activity of the Cottonwood Meadows RHCP project.

The Statement of Net Assets on page 3 of this report shows amounts due from other funds. These amounts are due solely from NHCDC's Kentucky Enterprise Fund. When combined with the interfund amounts in the Kentucky Enterprise Fund, NHCDC owes YCH as follows:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Cottonwood due from other funds	\$ 847,143	\$ 903,629
Kentucky due to other funds	<u>(1,004,167)</u>	<u>(1,274,283)</u>
Net NHCDC due to YCH	<u>\$ 157,024</u>	<u>\$ 370,654</u>

On November 30, 2007, NHCDC sold its Kentucky Street commercial property for a loss of approximately \$621,275. The proceeds from the sale were in excess of the mortgage owed to First Northern Bank. NHCDC was also able to liquidate a portion of its debt to YCH.

However, as of June 30, 2008, NHCDC has limited liquid assets to meet its debt obligation to YCH. The Kentucky Enterprise Fund's assets have been liquidated and distributed. The Cottonwood Meadows Enterprise Fund has limited ability to generate funds that can be used to liquidate this debt. The regulatory agreement states that all excess program payments generated by the project must be returned to HCD, while any budget overruns must be absorbed by the project. Approximately 70% of the Project's units are not covered by these restrictions. Regardless, under these circumstances it is unlikely that the Project will be in the position to cover this debt to YCH in the near future.

SUPPLEMENTAL INFORMATION

**NEW HOPE COMMUNITY DEVELOPMENT CORPORATION
COTTONWOOD MEADOWS ENTERPRISE FUND
CONTRACT NO. 83-RHC-141
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN
NET ASSETS - BUDGET TO ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

HCD account codes		BUDGET			ACTUAL	Favorable (Unfavorable)
		Assisted	Unassisted	Total		VARIANCES
	Operating revenue:					
5120	Rent	\$ 48,477	\$ 253,836	\$ 302,313	\$ 300,413	\$ (1,900)
5180	Flexible subsidy	804	1,896	2,700	-	(2,700)
6370	Collection loss	-	-	-	(1,633)	(1,633)
5940	Other	-	-	-	3,211	3,211
	Total operating revenue	<u>49,281</u>	<u>255,732</u>	<u>305,013</u>	<u>301,991</u>	<u>(3,022)</u>
6320	Management Fee	<u>4,469</u>	<u>10,532</u>	<u>15,000</u>	<u>19,320</u>	<u>(4,320)</u>
6210	Advertising	60	140	200	-	200
6250	Other renting expenses	-	-	-	70	(70)
6310	Office salaries	6,040	14,235	20,275	13,543	6,732
6311	Office supplies	748	1,762	2,510	1,052	1,458
6330	Manager Salaries	8,372	19,732	28,104	27,038	1,066
6340	Legal	1,490	3,511	5,000	610	4,390
6350	Audit	506	1,194	1,700	1,700	-
6360	Telephone	1,638	3,862	5,500	3,148	2,352
6390	Miscellaneous	-	-	-	5,628	(5,628)
	Subtotal administration	<u>18,854</u>	<u>44,435</u>	<u>63,289</u>	<u>52,789</u>	<u>10,500</u>
6450	Electricity	2,074	4,889	6,963	4,631	2,332
6451	Water	4,176	9,842	14,018	8,675	5,343
6452	Gas	291	685	976	703	273
6453	Sewer	<u>2,057</u>	<u>4,848</u>	<u>6,905</u>	<u>13,362</u>	<u>(6,457)</u>
	Subtotal utilities	<u>8,598</u>	<u>20,264</u>	<u>28,862</u>	<u>27,371</u>	<u>1,491</u>
6525	Garbage and trash removal	2,307	5,438	7,745	5,874	1,871
6530	Security payroll/contract	-	-	-	503	(503)
6537	Grounds contract	2,747	6,475	9,222	9,545	(323)
6540	Repairs payroll	-	-	-	5,958	(5,958)
6541	Repairs supplies	-	-	-	1,459	(1,459)
6542	Repairs contracts	3,217	7,583	10,800	13,583	(2,783)
6545	Elevator maintenance	626	1,474	2,100	-	2,100
6560	Decorating payroll/contract	<u>1,490</u>	<u>3,511</u>	<u>5,000</u>	<u>1,807</u>	<u>3,193</u>
	Subtotal maintenance	<u>10,387</u>	<u>24,480</u>	<u>34,867</u>	<u>38,729</u>	<u>(3,862)</u>

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STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN
NET ASSETS - BUDGET TO ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

HCD account codes		BUDGET			ACTUAL	Favorable (Unfavorable) VARIANCES
		Assisted	Unassisted	Total		
	Operating expenses (continued):					
6710	Real estate taxes	4,469	10,532	15,000	6,326	8,674
6720	Insurance	4,232	9,974	14,206	15,903	(1,697)
6722	Worker's compensation	86	203	289	-	289
6723	Employee benefits	<u>4,182</u>	<u>9,855</u>	<u>14,037</u>	<u>13,206</u>	<u>831</u>
	Subtotal insurance & taxes	<u>12,968</u>	<u>30,564</u>	<u>43,532</u>	<u>35,435</u>	<u>8,097</u>
1320	Replacement reserve	4,900	11,550	16,450	-	16,450
	Contingency reserve	<u>1,658</u>	<u>3,909</u>	<u>5,567</u>	<u>-</u>	<u>5,567</u>
	Subtotal reserves	<u>6,558</u>	<u>15,459</u>	<u>22,017</u>	<u>-</u>	<u>22,017</u>
	Depreciation (Note 3)	-	-	-	<u>45,329</u>	<u>(45,329)</u>
	Total operating expenses	<u>61,834</u>	<u>145,733</u>	<u>207,567</u>	<u>218,973</u>	<u>(11,406)</u>
	Operating income (loss)	(12,553)	109,999	97,446	83,018	(14,428)
	Nonoperating revenue (expenses):					
	HCD annuity	12,553	-	12,553	12,553	-
	Interest - restricted	-	-	-	2,935	2,935
	Interest - unrestricted	-	-	-	783	783
	Interest expense	-	(105,853)	(105,853)	(101,689)	4,164
	Amortization of loan costs	-	-	-	(4,711)	(4,711)
	Excess program payments	-	-	-	(5,079)	(5,079)
	Change in net assets	<u>\$ -</u>	<u>\$ 4,146</u>	<u>\$ 4,146</u>	<u>(12,190)</u>	<u>\$ (16,336)</u>
	Net assets - beginning of year, originally stated				296,928	
	Prior period adjustments				<u>(8,092)</u>	
	Net assets - beginning of year				<u>288,836</u>	
	Net assets - end of year				<u>\$ 276,646</u>	

The accompanying Independent Auditors' Report and notes are an integral part of this statement.

**NEW HOPE COMMUNITY DEVELOPMENT CORPORATION
COTTONWOOD MEADOWS ENTERPRISE FUND
CONTRACT NO. 83-RHC-141
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN
NET ASSETS - BUDGET TO ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

HCD account codes		BUDGET (unapproved)			ACTUAL	Favorable (Unfavorable) VARIANCES
		Assisted	Unassisted	Total		
	Operating revenue:					
5120	Rent	\$ 36,888	\$ 253,836	\$ 290,724	\$ 285,689	\$ (5,035)
5190	Rent Revenue Misc	874	2,059	2,933	-	(2,933)
5220	Vacancy loss	(1,107)	(12,691)	(13,798)	-	13,798
5930	Damage and cleaning fees	971	2,288	3,259	2,204	(1,055)
5940	Other	-	-	-	2,658	2,658
	Total operating revenue	<u>37,626</u>	<u>245,492</u>	<u>283,118</u>	<u>290,551</u>	<u>7,433</u>
6320	Management Fee	<u>5,755</u>	<u>13,565</u>	<u>19,320</u>	<u>19,320</u>	<u>-</u>
6210	Advertising	60	140	200	-	200
6250	Other renting expenses	-	-	-	410	(410)
6310	Office salaries	3,575	8,425	12,000	685	11,315
6311	Office supplies	600	1,414	2,014	534	1,480
6330	Manager Salaries	5,151	12,141	17,292	43,474	(26,182)
6331	Manager's rent free unit	194	456	650	-	650
6340	Legal	298	702	1,000	3,158	(2,158)
6350	Audit	128	301	429	809	(380)
6360	Telephone	223	527	750	362	388
6390	Miscellaneous	-	-	-	7,008	(7,008)
	Subtotal administration	<u>10,229</u>	<u>24,106</u>	<u>34,335</u>	<u>56,440</u>	<u>(22,105)</u>
6450	Electricity	1,989	4,689	6,678	5,542	1,136
6451	Water	3,050	7,189	10,239	8,428	1,811
6452	Gas	382	901	1,283	1,071	212
6453	Sewer	1,017	2,396	3,413	10,572	(7,159)
	Subtotal utilities	<u>6,438</u>	<u>15,175</u>	<u>21,613</u>	<u>25,613</u>	<u>(4,000)</u>
6517	Janitor contract	1,713	4,037	5,750	-	5,750
6519	Exterminating payroll/contract	1,072	2,528	3,600	-	3,600
6525	Garbage and trash removal	1,624	3,827	5,451	7,408	(1,957)
6530	Security payroll/contract	74	176	250	780	(530)
6537	Grounds contract	2,546	6,002	8,548	8,895	(347)
6541	Repairs supplies	-	-	-	1,100	(1,100)
6542	Repairs contracts	4,469	10,531	15,000	11,233	3,767
6545	Elevator maintenance	626	1,474	2,100	-	2,100
6560	Decorating payroll/contract	3,014	7,105	10,119	7,153	2,966
	Subtotal maintenance	<u>15,138</u>	<u>35,680</u>	<u>50,818</u>	<u>36,569</u>	<u>14,249</u>

**NEW HOPE COMMUNITY DEVELOPMENT CORPORATION
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STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN
NET ASSETS - BUDGET TO ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

HCD account codes	BUDGET (unapproved)			ACTUAL	Favorable (Unfavorable) VARIANCES	
	Assisted	Unassisted	Total			
Operating expenses (continued):						
6710	Real estate taxes	-	13,914	13,914	14,101	(187)
6720	Insurance	3,176	7,485	10,661	16,079	(5,418)
6722	Worker's compensation	447	1,053	1,500	-	1,500
6723	Employee benefits	357	843	1,200	17,905	(16,705)
	Subtotal insurance & taxes	<u>3,980</u>	<u>23,295</u>	<u>27,275</u>	<u>48,085</u>	<u>(20,810)</u>
1320	Replacement reserve	-	-	-	-	-
	Contingency reserve	1,247	3,354	4,601	-	4,610
	Subtotal reserves	<u>1,247</u>	<u>3,334</u>	<u>4,601</u>	-	4,610
	Depreciation (Note 3)	-	-	-	45,329	(45,329)
	Total operating expenses	<u>42,787</u>	<u>115,175</u>	<u>157,962</u>	<u>231,356</u>	<u>(73,394)</u>
	Operating income (loss)	(5,161)	130,317	125,156	59,195	(65,961)
Nonoperating revenue (expenses):						
	HCD annuity	-	-	-	1,366	1,366
	Interest - restricted	-	-	-	3,755	3,755
	Interest - unrestricted	-	-	-	1,309	1,309
	Interest expense	-	(88,945)	(88,945)	(107,719)	(18,774)
	Amortization of loan costs	-	-	-	(1,177)	(1,177)
	Excess program payments	-	-	-	(31,182)	(31,182)
	Change in net assets, before transfers	<u>\$ (5,161)</u>	<u>\$ 41,372</u>	<u>\$ 36,211</u>	(74,453)	<u>\$ (110,664)</u>
	Operating transfer in				<u>23,342</u>	
	Change in net assets				(51,111)	
	Net assets - beginning of year				<u>348,039</u>	
	Net assets - end of year				<u>\$ 296,928</u>	

Notes to this statement:

(1) The budget used above was submitted to HCD for approval in March 2006. A subsidy agreement was received in August 2006, which indicates that a budget was reviewed and approved by HCD. However, the HCD approved budget could not be located by the YCH.

The accompanying Independent Auditors' Report and notes are an integral part of this statement.

Harn & Dolan

Certified Public Accountants

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

California Department of
Housing and Community Development
1800 Third Street
Sacramento, California

We have audited the financial statements of the Cottonwood Meadows Enterprise Fund of the New Hope Community Development Corporation (NHCDC), as of and for the years ended June 30, 2008 and 2007, and have issued our report thereon dated March 25, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the NHCDC's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Cottonwood Meadows Enterprise Fund of the NHCDC's financial statements that is more than inconsequential will not be prevented or detected by the NHCDC's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the NHCDC's internal control.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management, others within NHCDC, the Board of Commissioners, and the State of California Department of Housing and Community Development and is not intended to be and should not be used by anyone other than these specified parties.

March 25, 2009