

New Hope Community Development Corporation

BOARD OF DIRECTORS

Lisa A. Baker, Executive Director

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DATE: May 13, 2010
TO: New Hope CDC Board of Directors
FROM: Lisa A. Baker, Executive Director
By: Mark Stern, Finance Director
SUBJECT: **Approval of the FY 2008-2009 Audit for Cottonwood Meadows Apartments**

RECOMMENDED ACTIONS:

That the Board of Directors accept and approve the FY 2008-2009 audit of New Hope CDC.

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. New Hope CDC is included in the YCH Single Audit. This separate audit report meets the terms of the agreement with HCD which require a separate audit of the Cottonwood Meadows Apartments.

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: 2008-2009 New Hope CDC Audit

**NEW HOPE COMMUNITY DEVELOPMENT CORPORATION
COTTONWOOD MEADOWS ENTERPRISE FUND
CONTRACT NO. 83-RHC-141
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(Including Auditors' Report Thereon)**

**NEW HOPE COMMUNITY DEVELOPMENT CORPORATION
COTTONWOOD MEADOWS ENTERPRISE FUND
CONTRACT NO. 83-RHC-141
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009**

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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, 2009 and 2008, 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, 2009 and 2008, 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, 2009 and 2008, 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.

NHCDC is a component unit of Yolo County Housing.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2010, 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 *Report of Actual Operating Costs* (HCD form 180) and *Actual Cash Flow Analysis* (HCD form 181), 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. *Report of Actual Operating Costs* (HCD form 180) and *Actual Cash Flow Analysis* (HCD form 181) 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.

A handwritten signature in cursive script, appearing to read "Harm & Delan".

March 22, 2010

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

ASSETS	<u>2009</u>	<u>2008</u>
Current assets:		
Cash (Note 2)	\$ 31,470	\$ 48,220
Due from other funds (Note 10)	838,341	847,143
Due from the State Dept of HCD	4,790	-
Tenant accounts receivable	1,222	16
Prepaid expenses	<u>13,712</u>	<u>5,599</u>
Total current assets	889,535	900,978
Restricted assets:		
Restricted cash (Note 2 & 3)	165,403	164,028
Capital assets (Note 4):		
Land, structures, and equipment (net of accumulated depreciation of \$334,458 and \$294,637)	1,354,637	1,394,458
Loan fees (net of amortization \$7,612, \$6,479) (Note 5)	<u>21,824</u>	<u>22,957</u>
Total assets	<u>\$ 2,431,399</u>	<u>\$ 2,482,421</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable - vendors	\$ -	\$ 718
Due to HCD - excess program payments (Note 6)	-	5,079
Due to other governments	9,181	-
Current portion of compensated absences	100	706
Interest payable	5,568	5,568
Current portion of long-term debt (Note 5)	<u>45,629</u>	<u>41,824</u>
Total current liabilities	60,478	53,895
Payable from restricted assets:		
Security deposits	19,705	19,543
Noncurrent liabilities:		
Long-term portion of compensated absences	302	2,117
Long-term debt (Note 5)	<u>2,084,612</u>	<u>2,130,221</u>
Total liabilities	<u>2,165,097</u>	<u>2,205,776</u>
Net assets (Note 7):		
Invested in capital assets, net of related debt	(781,172)	(783,155)
Restricted	176,627	159,044
Unrestricted	<u>870,847</u>	<u>900,756</u>
Total net assets	<u>266,302</u>	<u>276,645</u>
Total liabilities and net assets	<u>\$ 2,431,399</u>	<u>\$ 2,482,421</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 FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30,**

	<u>2009</u>	<u>2008</u>
Operating revenue:		
Rent	\$ 299,379	\$ 300,413
Other	<u>7,151</u>	<u>3,211</u>
Total operating revenue	<u>306,530</u>	<u>303,624</u>
Operating expenses:		
Management Fee	9,660	19,320
Administrative	40,667	67,628
Utilities	29,662	27,371
Maintenance	47,990	38,729
Insurance & Taxes	49,655	22,229
Depreciation (Note 4)	<u>39,821</u>	<u>45,329</u>
Total operating expenses	<u>217,455</u>	<u>220,606</u>
Operating Income (loss)	89,075	83,018
Nonoperating revenue (expense):		
HCD annuity (Note 8)	4,790	12,553
Interest on restricted funds	1,196	2,935
Interest on unrestricted funds	440	783
Interest expense (Note 5)	(100,609)	(101,689)
Excess program payments (Note 6)	5,079	(5,079)
Amortization of Loan costs (Note 5)	<u>(1,134)</u>	<u>(4,711)</u>
Net loss	<u>(1,163)</u>	<u>(12,190)</u>
Net assets - beginning of year, as originally stated	276,646	296,928
Prior period adjustments (Note 9)	<u>(9,181)</u>	<u>(8,092)</u>
Net assets - beginning of year, restated	<u>267,465</u>	<u>288,836</u>
Net assets - end of year	<u>\$ 266,302</u>	<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 CASH FLOWS
FOR THE YEAR ENDED JUNE 30,**

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Tenant receipts	\$ 299,824	\$ 288,235
Other receipts	4,290	2,297
Payroll and benefit expenditures	(44,380)	(42,377)
Administrative expenditures	(12,771)	(12,208)
Utility expenditures	(29,663)	(27,371)
Maintenance expenditures	(42,607)	(26,257)
Insurance and taxes expenditures	<u>(42,333)</u>	<u>(14,718)</u>
Net cash provided by operating activities	<u>132,360</u>	<u>167,601</u>
Cash flows from noncapital financing activities:		
Operating grants received	-	12,553
Funds returned to the State	-	(31,181)
Interfund transactions	<u>(6,958)</u>	<u>31,533</u>
Net cash provided (used) by noncapital financing activities	<u>(6,958)</u>	<u>12,905</u>
Cash flows from capital financing activities:		
Principal paid on debt	(41,804)	(39,264)
Interest paid on debt	<u>(100,609)</u>	<u>(103,149)</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	1,196	2,935
Interest on unrestricted cash	<u>440</u>	<u>783</u>
Net cash provided (used) by investing activities	<u>1,636</u>	<u>3,718</u>
Net change in cash	(15,375)	41,811
Cash at beginning of year	<u>212,248</u>	<u>170,437</u>
Cash at end of year	<u>\$ 196,873</u>	<u>\$ 212,248</u>
Unrestricted cash	\$ 31,470	\$ 48,220
Restricted cash	<u>165,403</u>	<u>164,028</u>
	<u>\$ 196,873</u>	<u>\$ 212,248</u>

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

(Continued)

	2009	2008
Reconciliation of operating income to net cash used by operating activities:		
Operating income	\$ 89,075	\$ 83,018
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense	39,821	45,329
Interprogram expense	15,760	24,953
Prior period adjustments	-	(8,092)
(Increase) decrease in:		
Tenant accounts receivable (net)	(1,206)	166
Interest receivable	-	12,081
Prepaid expenses	(8,113)	7,510
Increase (decrease) in:		
Accounts payable vendors	(718)	718
Tenant security deposits	161	374
Compensated absences	(2,420)	1,544
Net cash provided by operating activities	\$ 132,360	\$ 167,601

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, 2009**

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. Operating expenses include payroll, benefits, utilities, maintenance costs, and depreciation. 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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(Continued)

Note 2 - CASH AND CASH EQUIVALENTS

All cash and cash equivalents held by NHCDC are maintained in checking accounts with First Northern Bank. The cash held by NHCDC as of June 30, 2009, is below the FDIC limits of \$250,000 and therefore fully insured. 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>6/30/2009</u>	<u>6/30/2008</u>
Replacement reserves	\$ 143,790	\$ 142,594
Security deposits	21,613	21,434
	<u>\$ 165,403</u>	<u>\$ 164,028</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 replacement reserves are not fully funded, see also Note 7.

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.

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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, 2009:

	Balance 6/30/07	Additions	Deletions	Balance 6/30/08	Additions	Balance 6/30/09
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	\$ (188,722)	\$(34,313)	\$ -	\$ (223,035)	\$ (34,313)	\$ (257,348)
Equipment	(60,586)	(11,016)	-	(71,602)	(5,508)	(77,110)
Total	<u>\$ (249,308)</u>	<u>\$ (45,329)</u>	<u>\$ -</u>	<u>\$ (294,637)</u>	<u>\$ (39,821)</u>	<u>\$ (334,458)</u>
Total capital assets, net:						
Land	\$ 239,463	\$ -	\$ -	\$ 239,463	-	\$ 239,463
Buildings	1,183,800	(34,313)	-	1,149,487	(34,313)	1,115,174
Equipment	16,524	(11,016)	-	5,508	(5,508)	-
Total	<u>\$ 1,439,787</u>	<u>\$ (45,329)</u>	<u>\$ -</u>	<u>\$ 1,394,458</u>	<u>\$ (39,821)</u>	<u>\$ 1,354,637</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, 2009:

	Balance 6/30/07	Payments	Balance 6/30/08	Payments	Balance 6/30/09	Short-term Portion
Mortgage	\$ 1,842,509	\$ (39,264)	\$ 1,803,245	\$ (41,804)	1,761,441	\$ 45,629
HCD	368,800	-	368,800	-	368,800	-
Total	<u>\$ 2,211,309</u>	<u>\$ (39,264)</u>	<u>\$ 2,172,045</u>	<u>\$ (41,804)</u>	<u>\$ 2,130,241</u>	<u>\$ 45,629</u>

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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>
2010	\$ 45,629	\$ 96,784	\$ 142,413
2011	17,417	97,672	115,089
2012	18,424	96,664	115,088
2013	19,490	95,599	115,089
2014	20,618	94,471	115,089
2015-2019	122,421	453,022	575,443
2020-2024	162,174	413,269	575,443
2025-2029	214,835	360,608	575,443
2030-2031	<u>1,140,433</u>	<u>95,573</u>	<u>1,236,006</u>
	<u>\$ 1,761,441</u>	<u>\$ 1,803,662</u>	<u>\$ 3,565,103</u>

On October 23, 2001, the New Hope Community Development Corporation (NHDC), 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, NHDC 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, NHDC refinanced the loan on this property, borrowing \$1,900,000 from First Northern Bank. The loan is amortized over 25 years, due December 15, 2030, requires monthly payments of \$11,868, and carries an interest rate of 5.56% per annum. Interest of \$100,609 was accrued and paid during the current fiscal year, with \$103,149 paid in the fiscal year ended June 30, 2008. Loan fees of \$29,437 were paid to acquire this loan. These fees are being amortized over the life of the loan. Loan fees amortized during the fiscal years ended June 30, 2009 and 2008 were \$1,134 and \$4,711, respectively. The unamortized portion of these loan fees are reported as assets in the *Statement of Net Assets*.

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Note 5 (continued)

On September 3, 2009, this loan was renegotiated to decrease the monthly payment to \$9,591. The interest rate and maturity date of December 31, 2030, remain the same. The terms of the loan, as they are now, will require a balloon payment of \$1,099,893 at maturity.

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 years ended June 30, 2008 and 2009, changes in the amount due HCD were as follows:

EPPs as of June 30, 2006, per HCD			\$ 31,182
Installment payments made to HCD			(31,182)
EPPs recognized during 2008:			
Revenue - Assisted units		49,155	
Annuity received		12,553	
Expenses - assisted units actual	56,629		
budget	61,834	(56,629)	5,079
Balance at June 30, 2008			5,079
Adjustments made by HCD during the review and approval process of the audit and sponsor certification:			
Additional EPP for June 30, 2008			646
Budget revision for June 30, 2007		(7,492)	
Amount to be refunded to the project		1,767	(5,725)
Remaining balance due as of June 30, 2008			-
EPPs generated during 2009:			
Revenue - Assisted units		55,669	
Annuity receivable as of 6/30/09		3,023	
Expenses - assisted units actual	58,925		
budget	57,137	(57,137)	1,555
Balance at June 30, 2008			<u>\$ 1,555</u>

Neither the 2009 annuity nor the additional amount to be supplied to the project for the 2006/2007, 2007/2008 fiscal years has been received as of June 30, 2009. A receivable of \$4,790 has been recorded. The EPPs of \$1,555 as of June 30, 2009 were not recorded as a liability. NHCDC is waiting for HCD to approve the *Annual Sponsor Certification* for the fiscal year ended June 30, 2009, before accruing any EPPs.

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(Continued)

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, 2009</u>	<u>June 30, 2008</u>
Capital assets, net of accumulated depreciation (Note 3)	\$ 1,354,637	\$ 1,394,458
Interest payable on L/T debt	(5,568)	(5,568)
Long-term debt (Note 5)	<u>(2,130,241)</u>	<u>(2,172,045)</u>
Investment in capital assets, net of related debt	<u>\$ (781,172)</u>	<u>\$ (783,155)</u>

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.

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, 2009</u>	<u>June 30, 2008</u>
Beginning balance	\$ 159,044	\$ 139,659
Change to beginning balance 2006/2007	5,399	-
Deposits:		
a. Principal additions	16,450	16,450
b. Interest earned on the account	1,196	2,935
Withdrawals - approved 4/7/2009	<u>(5,462)</u>	<u>-</u>
Ending balance	<u>\$ 176,627</u>	<u>\$ 159,044</u>

The funds are held in a business interest checking account with First Northern Bank. The balance of the account as of June 30, 2009 was \$143,790. The accounts earns interest at a rate of 0.75% per annum. As of June 30, 2009, reserves are not fully funded. HCD has instructed NHCDC to bring their deposits into compliance with the approved budgets immediately.

**NEW HOPE COMMUNITY DEVELOPMENT CORPORATION
COTTONWOOD MEADOWS ENTERPRISE FUND
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

(Continued)

Note 8 - RENTAL ANNUITY

Rental annuity in the amount of \$12,553 was approved and received during the fiscal year ended June 30, 2008. Rental annuity of \$3,023 was approved during the budget process for the current fiscal year. These funds have not yet been received nor has HCD executed a grant amendment for the amount.

Note 9 - PRIOR PERIOD ADJUSTMENTS

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

During the prior fiscal year, YCH researched the difference between the general ledger and the subsidiary ledger for accounts payable vendors. It was 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, 2008 by \$8,092.

During the fiscal year ended June 30, 2009, the County of Yolo informed NHCDC that its property taxes had been calculated incorrectly for the past few years. An additional \$9,181 was assessed to the project for 2007. This amount was reported as a prior period adjustment decreasing net assets as of July 1, 2008. This amount remains payable as of June 30, 2009 and is reported as a liability, Due to Other Governments.

NEW HOPE COMMUNITY DEVELOPMENT CORPORATION
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NOTES TO THE FINANCIAL STATEMENTS
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(Continued)

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, 2009</u>	<u>June 30, 2008</u>
Cottonwood due from other funds	\$ 838,341	\$ 847,143
Kentucky due to other funds	<u>(1,004,167)</u>	<u>(1,004,167)</u>
Net NHCDC due to YCH	<u>\$ (165,826)</u>	<u>\$ (157,024)</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, 2009 and 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

Rental Housing Construction Program -- Original

7. REPORT OF ACTUAL OPERATING COSTS

Reporting Period: 7/1/2008 to 06/30/2009

Contract No: 83-RHC-141
 Project Name: Cottonwood Meadows
 Prepared by:
 Date Prepared:

Units/Sq. Ft. - Assisted: 14
 Units/Sq. Ft. - Total: 47
 Unit Months: 564

ACCOUNT NAME	UNIT EXPENSES							PROJECT TOTALS		
	ACCOUNT CODES	Approved Assisted (A)	Actual Assisted	Approved Non-Assisted	Actual Non-Assisted	Proposed Commercial	Actual Commercial	Approved Total Expenses	Total Actual Expenses (B)	Project Variance (C)
MANAGEMENT FEE: 6200/6300										
1 Management Fee or Sponsor Overhead	6320	5,755	2,877	13,565	6,783	0	0	19,320	9,660	9,660
ADMINISTRATIVE EXPENSES: 6200/6300										
2 Advertising	6210	74	151	176	355	0	0	250	506	(256)
3 Apartment Resale Expense (Cooperatives)	6235	0	0	0	0	0	0	0	0	0
4 Other Renting Expenses	6250	30	64	70	150	0	0	100	214	(114)
5 Office Salaries	6310	1,674	(1,333)	3,945	(3,142)	0	0	5,519	(4,475)	10,094
6 Office Supplies	6311	253	205	597	485	0	0	850	691	159
7 Office or Model Apartment Rent	6312	0	0	0	0	0	0	0	0	0
8 Manager and Superintendent Salaries	6330	9,251	9,235	21,804	21,766	0	0	31,055	31,001	54
9 Manager's or Superintendent's Rent Free Unit	6331	0	0	0	0	0	0	0	0	0
10 Legal Expense - Project	6340	238	515	562	1,215	0	0	800	1,730	(930)
11 Audit Expense - Project	6350	505	506	1,194	1,194	0	0	1,700	1,700	0
12 Bookkeeping Fees/Accounting Services	6351	0	0	0	0	0	0	0	0	0
13 Telephone and Answering Service Expenses	6360	804	916	1,896	2,159	0	0	2,700	3,075	(375)
14 Bad Debt Expense	6370	0	408	0	963	0	0	0	1,371	(1,371)
15 Miscellaneous Administrative Expenses (specify)	6390	581	1,446	1,369	3,408	0	0	1,950	4,854	(2,904)
16 TOTAL ADMINISTRATIVE EXPENSES	6200/6300T	13,413	12,114	31,611	28,553	0	0	45,024	40,667	4,357
UTILITIES EXPENSES: 6400										
17 Fuel Oil/Coal	6420	0	0	0	0	0	0	0	0	0
18 Electricity	6450	1,490	1,616	3,511	3,808	0	0	5,000	5,424	(424)
19 Water	6451	2,681	2,792	6,319	6,582	0	0	9,000	9,374	(374)
20 Gas	6452	298	243	702	573	0	0	1,000	816	184
21 Sewer	6453	4,022	4,185	9,478	9,863	0	0	13,500	14,048	(548)
22 TOTAL UTILITIES EXPENSES	6400T	8,490	8,836	20,010	20,826	0	0	28,500	29,662	(1,162)
OPERATING AND MAINTENANCE EXPENSES: 6500										
23 Janitor and Cleaning Payroll	6510	0	0	0	0	0	0	0	0	0
24 Janitor and Cleaning Supplies	6515	0	0	0	0	0	0	0	0	0
25 Janitor and Cleaning Contracts	6517	0	0	0	0	0	0	0	0	0
26 Exterminating Payroll/Contract	6519	0	0	0	0	0	0	0	0	0
27 Exterminating Supplies	6520	0	0	0	0	0	0	0	0	0
28 Garbage and Trash Removal	6525	2,487	1,691	5,863	3,986	0	0	8,350	5,677	2,673
29 Security Payroll/Contract	6530	209	286	491	676	0	0	700	962	(262)
30 Grounds Payroll	6535	0	0	0	0	0	0	0	0	0
31 Grounds Supplies	6536	0	0	0	0	0	0	0	0	0
32 Grounds Contract	6537	2,681	2,685	6,319	6,328	0	0	9,000	9,013	(13)
33 Repairs Payroll	6540	2,234	0	5,266	0	0	0	7,500	0	7,500
34 Repairs Material	6541	566	1,391	1,404	3,256	0	0	2,000	4,637	(2,637)
35 Repairs Contract	6542	3,575	3,598	8,425	8,481	0	0	12,000	12,079	(79)
36 Elevator Maintenance/Contract	6545	0	0	0	0	0	0	0	0	0
37 Heating/Cooling Repairs and Maintenance	6546	0	0	0	0	0	0	0	0	0
38 Swimming Pool Maintenance/Contract	6547	0	0	0	0	0	0	0	0	0
39 Snow Removal	6548	0	0	0	0	0	0	0	0	0
40 Decorating/Payroll Contract	6560	822	3,027	1,938	7,133	0	0	2,760	10,160	(7,400)
41 Decorating Supplies	6561	0	0	0	0	0	0	0	0	0
42 Vehicle and Maint. Equipment Operation/Repairs	6570	0	0	0	0	0	0	0	0	0
43 Misc. Operating and Maintenance Expenses (specify)	6590	0	0	0	0	0	0	0	0	0
44 TOTAL OPERATING & MAINTENANCE EXPENSES	6500T	12,604	12,668	29,706	29,860	0	0	42,310	42,528	(218)
TAXES AND INSURANCE: 6700										
45 Real Estate Taxes	6710	1,938	7,595	4,566	17,901	0	0	6,504	25,496	(18,992)
46 Payroll Taxes (Project's Share)	6711	0	819	0	1,930	0	0	0	2,749	(2,749)
47 Misc. Taxes, Licenses and Permits	6719	0	0	0	0	0	0	0	0	0
48 Property and Liability Insurance (Hazard)	6720	3,078	4,835	7,254	11,395	0	0	10,332	16,230	(5,898)
49 Fidelity Bond Insurance	6721	143	168	337	395	0	0	480	563	(83)
50 Worker's Compensation	6722	0	109	0	257	0	0	0	386	(386)
51 Health Insurance and Other Employee Benefits	6723	4,898	3,670	11,545	8,649	0	0	16,443	12,319	4,124
52 Other Insurance	6729	397	331	935	782	0	0	1,332	1,113	219
53 TOTAL TAXES AND INSURANCE	6700T	10,454	17,527	24,637	41,309	0	0	35,091	58,836	(23,745)
ASSISTED LIVING/BOARD & CARE EXPENSES: 6900										
54 Food	6932	0	0	0	0	0	0	0	0	0
55 Recreation and Rehabilitation	6980	0	0	0	0	0	0	0	0	0
56 Rehabilitation Salaries	6983	0	0	0	0	0	0	0	0	0
57 Other Service Expenses	6990	0	0	0	0	0	0	0	0	0
58 TOTAL ASSISTED LIVING EXPENSES	6900T	0	0	0	0	0	0	0	0	0
61 TOTAL OPERATING COSTS		50,716	54,022	119,529	127,331	0	0	170,245	181,353	(11,108)

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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, 2009 and 2008, and have issued our report thereon dated March 22, 2010. 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.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the 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. We consider the deficiency described in Item 1 in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

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.

**NEW HOPE COMMUNITY DEVELOPMENT CORPORATION
COTTONWOOD MEADOWS ENTERPRISE FUND
CONTRACT NO. 83-RHC-141
STATUS OF PRIOR AUDIT FINDINGS
JUNE 30, 2009**

The previous audit report for the year ending June 30, 2008 contained no audit findings.

**NEW HOPE COMMUNITY DEVELOPMENT CORPORATION
COTTONWOOD MEADOWS ENTERPRISE FUND
CONTRACT NO. 83-RHC-141
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009**

1. **Program Administration**

Criteria - When NHCDC acquired the Cottonwood Meadows Apartments, it assumed the Regulatory Agreement with the California Department of Housing and Community Development (HCD). The Regulatory Agreement provide financial assistance to the project in return for restrictions on the development and its administration. It requires annual reporting of the project's operating activity as well its replacement reserve activity. A by-product of this reporting is the determination of further financial needs of the project or the calculation of excess program payments.

Condition - During our audit we noted the following:

- The annual reporting to HCD (forms 180 and 181) appeared to have been completed on a timely basis. However, it included replacement reserve interest and the use of replacement reserve expenses as operating expenses. It also included prior year annuity revenue as current year operating revenue. The cause was the inaccurate reporting of operating results.
- Replacement reserve deposits have not been fully funded for three years. Replacement reserve activity was not accurately reported to HCD during the year end reporting process.
- Excess program payments are not calculated and accrued as of fiscal year end. These amounts are typically not material.
- HCD informed NHCDC that it had approved and accepted the 2006/2007 and 2007/2008 audits and sponsor certifications. At that time, HCD had changed the amount of annuity owed to NHCDC for 2006/2007, as well as increased the excess program payments owed for 2007/2008. The adjustment made by management properly accounted for only half of these transactions, understating revenue and overstating liabilities.

Questioned Costs - None

Cause - Controls over this State program do not appear to be fully implemented to ensure compliance with the Regulatory Agreement executed with HCD. The general ledger is not being maintained in a fashion to facilitate the accurate reporting of operating activity and replacement reserve transactions on a annual basis.

Effect - The annual reporting to HCD, required by the Regulatory Agreement, does not accurately reflect the year's operating activity nor replacement reserve activity.

Recommendation - We recommend that management become more familiar with the specific accounting and reporting requirements of this State program as set forth in the

**NEW HOPE COMMUNITY DEVELOPMENT CORPORATION
COTTONWOOD MEADOWS ENTERPRISE FUND
CONTRACT NO. 83-RHC-141
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009
(continued)**

Finding 1 (continued)

Regulatory Agreement. Care should be taken to report only the appropriate activity on each designated HCD form. The replacement reserve net assets balance should be maintained regardless of the actual funding set aside.

NHCDC's Response - NHCDC (Cottonwood Meadows) agrees with the audit recommendation and has been reviewing the program requirements and working with the State to overcome the deficiencies noted.

2. Tenant File Review

Criteria - The Authority has entered into a *Regulatory Agreement* with the State of California Department of Housing and Community Development (HCD). The agreement requires that each family's eligibility be reviewed and rent recalculated on an annual basis. The calculation of rent is based on formulas established by HCD. The agreement also requires the Authority to annually inspect each of the project's units.

Condition - We reviewed four of the fourteen assisted tenant files and noted the following:

- No documentation existed to show that the units had been inspected.
- The security deposit stated in three of the four leases did not agree with the amounts collected per the tenant ledger.
- Rents were calculated inaccurately in two of the four files. Each of the errors related to the allowance of medical expenses as a deduction. Although medical expenses are an allowable deduction to income when calculating rent, the calculation in these two cases was not accurate.

Questioned Costs - There are no significant questioned costs.

Cause - Effective quality control procedures have not been developed and implemented to ensure consistent compliance with the *Regulatory Agreement* entered into with HCD, including the accurate calculation of rent, the collection of security deposits in accordance with the requirements of the lease, and the clear documentation of the annual inspection of units.

Effect -NHCDC has not fully complied with the terms of its regulatory agreement with HCD. NHCDC can not document that units have been inspected on an annual basis and that security deposits are being collected in accordance with executed leases. Rent has not

NEW HOPE COMMUNITY DEVELOPMENT CORPORATION
COTTONWOOD MEADOWS ENTERPRISE FUND
CONTRACT NO. 83-RHC-141
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009
(continued)

Finding 2 (continued)

been calculated accurately on a consistent basis due to errors made while including medical expenses in the calculation.

Recommendation - We recommend that NHCDC establish and implement controls to ensure that rent is calculated accurately, security deposits are collected in accordance with the executed lease, and units are inspected on an annual basis.

NHCDC's Response - NHCDC agrees with the audit recommendation and has instituted procedures to consistently and accurately calculate and collect security deposits and rents. Home inspections are now being conducted on an annual basis as required by the regulations.

Project Name: Cottonwood Meadows

Sponsor Name: New Hope Community Development Corporation

Contract Number: 83-RHC-141

Project Fiscal Year: June 30, 2009

The sponsor must send one copy of this *Annual Report Sponsor Certification* along with the annual *Audited Financial Statements* to the Department of Housing and Community Development within ninety (90) days (or within the period of time specified in the Regulatory Agreement, if different) after the end of the project fiscal year. The *Annual Report Sponsor Certification* must have original signatures. Please note that if additional information is required for a specific program's *annual reporting requirement*, that information must accompany the *Annual Audited Financial Statements* as a separate attachment. The *Annual Report* includes the *Sponsor Certification*, the *Audited Financial Statements* and all other annual reporting documents.

Sponsor Certification

It is hereby certified that all of the representations made by the sponsor in the Regulatory Agreement and the financial disclosures contained in the *Annual Report* are true and correct, and that there is not any condition, event, or act which would constitute an event of default there under, or which with notice, passage of time, or both, would constitute such an event of default.

Authorized Signature

Lisa A Baker

Printed Name

Executive Director

Title:

March 22, 2010

Date