

New Hope Community Development Corporation

Lisa A. Baker, Executive Director

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DATE: May 17, 2012
TO: New Hope CDC Board of Directors
FROM: Lisa A. Baker, Executive Director
BY: Mark Stern, Finance Director
SUBJECT: **Approval of the FY 2010-2011 Audit for Cottonwood Meadows Apartments**

RECOMMENDED ACTIONS:

That the Board of Directors accept and approve the FY 2010-2011 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

Cottonwood Meadows is in arrears making deposits into the Replacement Reserve Account due to cash flow problems over the last several years. The recently reduced mortgage payments that resulted from an interest rate reset should free some cash flow and staff hopes to work out a payment schedule with HCD to bring the project into compliance with HCD requirements. The full 2010-2011 reserve deposit was made in July, 2011, subsequent to the audit period.

CONCLUSION:

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

Attachment: Audit Report

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

**NEW HOPE COMMUNITY DEVELOPMENT
CORPORATION
COTTONWOOD MEADOWS PROJECT
CONTRACT NO. 83-RHC-141**

June 30, 2011

New Hope Community Development Corporation
Cottonwood Meadows Project
Contract No. 83-RHC-141

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Project Name: Cottonwood Meadows Apartments
Contract #: 83-RHC-141
Sponsor's Name: New Hope Community Development Corp
Project Fiscal Year: 7/1/2010 – 6/30/2011

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
Mark Stern

Printed Name

Finance Director

Title
4/9/2012

Date

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
New Hope Community Development Corporation

We have audited the accompanying statement of financial position of the Cottonwood Meadows Project of the New Hope Community Development Corporation, Contract No. 83-RHC-141 (the Project) as of June 30, 2011 and the related statements of activities and cash flows for the year then ended. 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 statements 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 Project and do not purport to, and do not, present fairly the financial position of the New Hope Community Development Corporation (NHCDC) as of June 30, 2011, and the changes in its financial position and cash flows for the year 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 Project of the New Hope Community Development Corporation as of June 30, 2011, and the changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated April 10, 2012, on our consideration of NHCDC's Cottonwood Meadows Project's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information on pages 20 and 21 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the budgetary information on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Reznick Group, P.C.

Sacramento, California
April 10, 2012

New Hope Community Development Corporation
Cottonwood Meadows Project
Contract No. 83-RHC-141

STATEMENT OF FINANCIAL POSITION

June 30, 2011

ASSETS

CURRENT ASSETS

Cash - operations	\$ 115,350
Tenant accounts receivable	4,846
Accounts and notes receivable - entity	749,842
Prepaid expenses	<u>10,359</u>

Total current assets 880,397

DEPOSITS HELD IN TRUST - FUNDED

Tenant deposits	<u>20,322</u>
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RESTRICTED DEPOSITS AND FUNDED RESERVES

Reserve for replacements	<u>160,997</u>
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160,997

RENTAL PROPERTY

Land	239,463
Buildings	1,372,522
Furnishings	<u>77,110</u>

1,689,095

Less accumulated depreciation (403,131)

1,285,964

OTHER ASSETS

Loan fees, net	<u>24,015</u>
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24,015

\$ 2,371,695

(continued)

New Hope Community Development Corporation
Cottonwood Meadows Project
Contract No. 83-RHC-141

STATEMENT OF FINANCIAL POSITION - CONTINUED

June 30, 2011

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accrued interest payable - first mortgage	\$ 2,387
Excess program payments due to RHCP	12,382
Mortgage payable - first mortgage, current maturities	18,618
Miscellaneous current liabilities	<u>651</u>

Total current liabilities 34,038

DEPOSITS LIABILITY

Tenant deposits held in trust	<u>16,668</u>
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LONG-TERM LIABILITIES

Mortgage payable - first mortgage, net of current maturities	1,697,369
Note payable	<u>368,800</u>

Total long-term liabilities 2,066,169

Total liabilities 2,116,875

NET ASSETS

Unrestricted net assets	<u>254,820</u>
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\$ 2,371,695

See notes to financial statements

New Hope Community Development Corporation
Cottonwood Meadows Project
Contract No. 83-RHC-141

STATEMENT OF ACTIVITIES

Year ended June 30, 2011

RENTAL REVENUE	
Rent revenue - gross potential	\$ 254,320
	<u>254,320</u>
Total rental revenue	<u>254,320</u>
Net rental revenue	<u>254,320</u>
FINANCIAL REVENUE	
Financial revenue - project operations	247
Revenue from investments - replacement reserve	600
	<u>847</u>
Total financial revenue	<u>847</u>
OTHER REVENUE	
Laundry and vending	2,747
Miscellaneous revenue	2,093
	<u>4,840</u>
Total other revenue	<u>4,840</u>
Total revenue	<u>260,007</u>

(continued)

New Hope Community Development Corporation
Cottonwood Meadows Project
Contract No. 83-RHC-141

STATEMENT OF ACTIVITIES - CONTINUED

Year ended June 30, 2011

ADMINISTRATIVE EXPENSES	
Advertising and marketing	324
Other renting expenses	1,380
Office salaries	5,499
Office expenses	3,618
Management fee	19,320
Manager or superintendent salaries	1,550
Legal expense - project	1,330
Auditing expense	2,713
Miscellaneous administrative expenses	59
	<hr/>
Total administrative expenses	35,793
UTILITIES EXPENSE	
Electricity	5,349
Water	17,224
Gas	1,214
Sewer	14,094
	<hr/>
Total utilities expense	37,881
OPERATING AND MAINTENANCE EXPENSES	
Supplies	4,138
Contracts	27,298
Garbage and trash removal	8,419
Security payroll/contract	1,100
Miscellaneous operating and maintenance expenses	9,306
	<hr/>
Total operating and maintenance expenses	50,261

(continued)

New Hope Community Development Corporation
Cottonwood Meadows Project
Contract No. 83-RHC-141

STATEMENT OF ACTIVITIES - CONTINUED

Year ended June 30, 2011

TAXES AND INSURANCE	
Real estate taxes	15,818
Payroll taxes	425
Property and liability insurance	15,413
Workmen's compensation	59
Health insurance and other employee benefits	1,820
Miscellaneous taxes, licenses, permits and insurance	179
	<hr/>
Total taxes and insurance	33,714
FINANCIAL EXPENSES	
Interest on first mortgage payable	80,217
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Total financial expenses	80,217
	<hr/>
Total cost of operations before depreciation	237,866
	<hr/>
Income before depreciation and amortization	22,141
DEPRECIATION AND AMORTIZATION	
Depreciation expense	34,313
Amortization expense	1,232
	<hr/>
Total depreciation and amortization	35,545
MORTGAGOR ENTITY REVENUE AND EXPENSES	
Annuity due to RHCP	12,382
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Net entity expenses	12,382
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Total expenses	285,793
	<hr/>
Change in unrestricted net assets	(25,786)
	<hr/>
Net assets - unrestricted, beginning	280,606
	<hr/>
Net assets - unrestricted, end	<u>\$ 254,820</u>

See notes to financial statements

New Hope Community Development Corporation
Cottonwood Meadows Project
Contract No. 83-RHC-141

STATEMENT OF CASH FLOWS

Year ended June 30, 2011

Cash flows from operating activities	
Rental receipts	\$ 251,127
Interest receipts	247
Other operating receipts	<u>4,840</u>
Total receipts	<u>256,214</u>
Administrative expenses paid	(9,356)
Management fees paid	(19,320)
Utilities paid	(37,881)
Salaries and wages paid	(7,049)
Operating and maintenance paid	(50,261)
Real estate taxes paid	(15,818)
Property insurance paid	(13,078)
Miscellaneous taxes and insurance paid	(2,483)
Net tenant security deposits paid	(1,961)
Interest paid on first mortgage	<u>(77,830)</u>
Total disbursements	<u>(235,037)</u>
Net cash provided by operating activities	<u>21,177</u>
Cash flows from investing activities	
Decrease in accounts receivable - entity	<u>99,968</u>
Net cash provided by investing activities	<u>99,968</u>
Cash flows from financing activities	
Mortgage principal payments - first mortgage	<u>(22,078)</u>
Net cash used in financing activities	<u>(22,078)</u>
Net increase in cash	99,067
Cash, beginning	<u>16,283</u>
Cash, ending	<u><u>\$ 115,350</u></u>

(continued)

New Hope Community Development Corporation
 Cottonwood Meadows Project
 Contract No. 83-RHC-141

STATEMENT OF CASH FLOWS - CONTINUED

Year ended June 30, 2011

Reconciliation of change in unrestricted net assets to net cash provided by operating activities	
Change in unrestricted net assets	<u>\$ (25,786)</u>
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities	
Depreciation	34,313
Amortization	1,232
Interest income on replacement reserve	(600)
Changes in asset and liability accounts	
(Increase) decrease in assets	
Tenant accounts receivable	(3,193)
Prepaid expenses	2,335
Tenant security deposits funded	(2,065)
Increase (decrease) in liabilities	
Accrued interest payable	2,387
Excess program payments due to RHCP	12,382
Tenant security deposits held in trust	104
Accrued compensated absences	<u>68</u>
Total adjustments	<u>46,963</u>
Net cash provided by operating activities	<u><u>\$ 21,177</u></u>

See notes to financial statements

New Hope Community Development Corporation
Cottonwood Meadows Project
Contract No. 83-RHC-141

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The financial statements include only the accounts and transactions of the NHCDC's Cottonwood Meadows Project. 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 its financial position, changes in net assets and cash flows in conformity with accounting principles generally accepted in the United States of America.

NHCDC presents the financial statements of the Project in accordance with the accounting guidance for nonprofit entities. Under this guidance, the organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. All the net assets of the Project are unrestricted. Furthermore, information is required to segregate program service expenses from management and general expenses.

New Hope Community Development Corporation
Cottonwood Meadows Project
Contract No. 83-RHC-141

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011

The Organization conforms to accounting guidance on revenue recognition for nonprofit entities. Under this guidance, contributions received, if any, are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Accounting Method

The financial statements have been prepared on the accrual basis of accounting. Accordingly, income is recognized as earned and expenses as incurred, regardless of timing of payments.

Accounts Receivable

Accounts receivable are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. U.S. generally accepted accounting principles 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.

Rental Property

Rental property is carried at cost and includes all direct costs of the acquisition of the rental housing project. Major replacements and refurbishing are charged to the property accounts while replacements, maintenance, and repairs which do not improve or extend the lives of the respective assets are expensed as incurred. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives ranging from 5 to 40 years, using the straight-line method.

Impairment of Long-Lived Assets

NHCDC reviews the Project's rental property for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment loss has been recognized during the year ended June 30, 2011.

New Hope Community Development Corporation
Cottonwood Meadows Project
Contract No. 83-RHC-141

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011

Loan Fees and Amortization

Loan fees in the amount of \$34,237 are being amortized over the term of the loan using the effective yield method. As of June 30, 2011, accumulated amortization is \$10,222. Estimated annual amortization expense for each of the next five years following June 30, 2011 is as follows:

2012	\$	645
2013		661
2014		676
2015		691
2016		706

Rental Income

The rental property is generally leased to tenants under one year non-cancelable operating leases. Rental income is recognized as rents become due. Rental payments received in advance are deferred until earned.

Advertising and Marketing Costs

Advertising and marketing costs are expensed as incurred.

Income Taxes

NHCDC has applied for and received a determination letter from the Internal Revenue Service (IRS) to be treated as a tax exempt entity pursuant to Section 501(c)(3) of the Internal Revenue Code. Management believes that all the activities of NHCDC during the year ended June 30, 2011 were within the tax exempt guidelines of the organization therefore NHCDC did not have any unrelated business income for the year ended June 30, 2011. Due to its tax exempt status, NHCDC is not subject to income taxes. The Organization is required to file tax returns with the IRS and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes and the Organization has no other tax positions which must be considered for disclosure.

New Hope Community Development Corporation
 Cottonwood Meadows Project
 Contract No. 83-RHC-141

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - MORTGAGE NOTES PAYABLE

On November 23, 2005, NHCDC obtained a loan secured by the Project in the amount of \$1,900,000 from First Northern Bank. The loan is payable in monthly installments of principal and interest on the 15th of each month. The loan bears interest at a fixed rate which is adjusted every 5 years. The current fixed rate is 3.13% and the current monthly payment of principal and interest is \$6,975 until maturity at which time a balloon payment in the estimated amount of \$1,099,893 will be due. The loan matures on December 15, 2030. During the year ended June 30, 2011, interest of \$80,217 was incurred and expensed. Outstanding principal and accrued interest at June 30, 2011 are \$1,715,987 and \$2,387, respectively.

Aggregate annual maturities of the mortgage payable over each of the next five years and thereafter following June 30, 2011 are as follows:

2012	\$	18,618
2013		21,053
2014		22,254
2015		23,523
2016		24,885
Thereafter		<u>1,605,654</u>
	<u>\$</u>	<u>1,715,987</u>

On October 23, 2001, NHCDC purchased the Project property which was originally built with funding from HCD under the Rental Housing Construction Program. To acquire the property, NHCDC was required to assume the RHCP regulatory agreement and a \$368,800 note payable to HCD. Among other things, the regulatory agreement restricts the occupancy of 14 of the units to tenants with certain specified income levels and requires the

New Hope Community Development Corporation
Cottonwood Meadows Project
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011

establishment and maintenance of replacement and operating reserves, including annual deposits into each. The note matures in 2017 and does not bear interest. Outstanding principal at June 30, 2011 was \$368,800.

NOTE 4 - RELATED PARTY TRANSACTIONS

Due from Affiliate

From time-to-time, the Project advances funds to YCH, a related party. The advances are non-interest bearing and due on demand. As of June 30, 2011, \$749,842 remains receivable and is included in accounts and notes receivable - entity on the statement of financial position.

NHCDC is a blended component unit of YCH. As of July 1, 2006, NHCDC owned two projects: Cottonwood Meadows project and a commercial property located on Kentucky Street in Woodland, California. On November 30, 2007, NHCDC sold its Kentucky Street commercial property. After the sale and liquidation of the commercial project, NHCDC owed YCH \$1,004,167. Such liability is not reflected in the accompanying financial statements as it is not related to the Cottonwood Meadows Project.

As of June 30, 2011, NHCDC owed YCH a net liability of \$254,325.

Computation of Excess Program Payments (EPP)

During the year ended June 30, 2011, the Project operated the assisted units at a loss and has an annuity due from RHCP as follows:

Revenue - assisted units	\$	43,910
Expenses - assisted units		(46,967)
Deposits to replacement reserve		<u>(4,900)</u>
Annuity Due from RHCP	\$	<u><u>(7,957)</u></u>

As of June 30, 2011, NHCDC owes to RHCP excess program payments in the amount of \$12,382 related to prior years. The current annuity due from RHCP of \$7,957 as computed above will be recognized as revenue upon approval by and receipt from RHCP.

New Hope Community Development Corporation
Cottonwood Meadows Project
Contract No. 83-RHC-141

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011

Management Fee

The Project has entered into a property management agreement with NHCDC, in connection with the management of the rental operations of the Project. The property management fee is based on \$37 per unit per month. During the year ended June 30, 2011, property management fee of \$19,320 has been incurred and charged to operations.

NOTE 5 - RESERVE FOR REPLACEMENTS

Under the terms of the regulatory agreement, the Project is required to fund deposits to a reserve for replacements account in the monthly amount of \$548 which was subsequently increased to an annual amount of \$16,450. The amounts held for reserve for replacement cannot be disbursed without the approval of HCD. The reserve for replacement account has not been fully funded. During the year ended June 30, 2011, the activity in the reserve for replacements account was as follows:

Balance at June 30, 2010	\$ 160,397
Interest income	<u>600</u>
Balance at June 30, 2011	<u><u>\$ 160,997</u></u>

NOTE 6 - CONCENTRATION OF CREDIT RISK

The Project maintains its cash balances in several accounts at one bank. The balances are insured by the Federal Deposit Insurance Corporation. At times, these balances may exceed the federal insurance limits; however, the Project has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances at June 30, 2011.

NOTE 7 - SUBSEQUENT EVENTS

Management evaluated all activity of the Organization through April 10, 2012, and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to financial statements.

SUPPLEMENTAL INFORMATION

Rental Housing Construction Program -- Original

7. REPORT OF ACTUAL OPERATING COSTS

Reporting Period 7/1/2010 to 06/30/2011

Contract No 83-RHC-141
 Project Name Cottonwood Meadows
 Prepared by Mark Stern
 Date Prepared 4/8/2012

Units/Sq Ft - Assisted 14
 Units/Sq Ft - Total 47

Unit Months 554

ACCOUNT NAME	ACCOUNT CODES	UNIT EXPENSES						PROJECT TOTALS		
		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	5,755	13,565	13,565	0	0	19,320	19,320	0
ADMINISTRATIVE EXPENSES: 6200/6300										
2 Advertising	6210	179	97	421	227	0	0	600	324	276
3 Apartment Resale Expense (Cooperatives)	6235	0	0	0	0	0	0	0	0	0
4 Other Renting Expenses	6250	30	396	70	934	0	0	100	1,330	(1,230)
5 Office Salaries	6310	2,801	1,638	6,603	3,861	0	0	9,404	5,499	3,905
6 Office Supplies	6311	179	484	421	1,140	0	0	600	1,624	(1,024)
7 Office or Model Apartment Rent	6312	0	0	0	0	0	0	0	0	0
8 Manager and Superintendent Salaries	6330	536	462	1,264	1,088	0	0	1,800	1,550	250
9 Manager's or Superintendent's Rent Free Unit	6331	0	0	0	0	0	0	0	0	0
10 Legal Expense - Project	6340	298	396	702	934	0	0	1,000	1,330	(330)
11 Audit Expense - Project	6350	808	808	1,905	1,905	0	0	2,713	2,713	0
12 Bookkeeping Fees/Accounting Services	6351	0	0	0	0	0	0	0	0	0
13 Telephone and Answering Service Expenses	6360	268	247	632	581	0	0	900	828	72
14 Bad Debt Expense	6370	119	0	281	0	0	0	400	0	400
15 Miscellaneous Administrative Expenses (specify)	6390	631	380	1,487	895	0	0	2,118	1,275	843
16 TOTAL ADMINISTRATIVE EXPENSES	6200/6300T	5,849	4,908	13,786	11,565	0	0	19,635	16,473	3,162
UTILITIES EXPENSES: 6400										
17 Fuel Oil/Coal	6420	0	0	0	0	0	0	0	0	0
18 Electricity	6450	1,490	1,594	3,511	3,755	0	0	5,000	5,349	(349)
19 Water	6451	3,976	5,131	9,371	12,093	0	0	13,347	17,224	(3,877)
20 Gas	6452	298	362	702	852	0	0	1,000	1,214	(214)
21 Sewer	6453	4,618	4,199	10,885	9,895	0	0	15,503	14,094	1,409
22 TOTAL UTILITIES EXPENSES	6400T	10,382	11,286	24,468	26,595	0	0	34,850	37,881	(3,031)
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	1,233	0	2,905	0	0	0	4,138	(4,138)
25 Janitor and Cleaning Contracts	6517	0	2,118	0	4,992	0	0	0	7,110	(7,110)
26 Exterminating Payroll/Contract	6519	315	291	741	687	0	0	1,056	978	78
27 Exterminating Supplies	6520	0	0	0	0	0	0	0	0	0
28 Garbage and Trash Removal	6525	2,175	2,508	5,125	5,911	0	0	7,300	8,419	(1,119)
29 Security Payroll/Contract	6530	328	328	772	772	0	0	1,100	1,100	0
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	894	1,281	2,106	3,020	0	0	3,000	4,301	(1,301)
33 Repairs Payroll	6540	0	0	0	0	0	0	0	0	0
34 Repairs Material	6541	0	522	0	1,229	0	0	0	1,751	(1,751)
35 Repairs Contract	6542	7,547	2,251	17,787	5,304	0	0	25,334	7,555	17,779
36 Elevator Maintenance/Contract	6545	500	658	1,180	1,550	0	0	1,680	2,208	(528)
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	1,665	3,784	3,925	8,917	0	0	5,590	12,701	(7,111)
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	13,423	14,974	31,637	35,287	0	0	45,060	50,261	(5,201)
TAXES AND INSURANCE: 6700										
45 Real Estate Taxes	6710	3,888	4,712	9,162	11,106	0	0	13,050	15,818	(2,768)
46 Payroll Taxes (Project's Share)	6711	224	127	529	298	0	0	753	425	328
47 Misc. Taxes, Licenses and Permits	6719	0	53	0	126	0	0	0	179	(179)
48 Property and Liability Insurance (Hazard)	6720	3,551	3,293	8,368	7,761	0	0	11,919	11,054	865
49 Fidelity Bond Insurance	6721	391	377	922	888	0	0	1,313	1,265	48
50 Worker's Compensation	6722	25	18	58	41	0	0	83	59	24
51 Health Insurance and Other Employee Benefits	6723	905	542	2,132	1,278	0	0	3,037	1,820	1,217
52 Other Insurance	6729	670	922	1,580	2,172	0	0	2,250	3,094	(844)
53 TOTAL TAXES AND INSURANCE	6700T	9,653	10,044	22,752	23,670	0	0	32,405	33,714	(1,309)
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		45,063	46,967	106,207	110,682	0	0	151,270	157,649	(6,379)

Rental Housing Construction Program -- Original
8. ACTUAL CASH FLOW ANALYSIS

Reporting Period 07/01/2010 to 06/30/2011

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	Account Codes	ASSISTED UNITS		NON-ASSISTED UNITS		COMMERCIAL		TOTAL PROJECT		PROJECT VARIANCE
		Approved Cashflow (A)	Actual Cashflow (B)	Approved Cashflow (C)	Actual Cashflow (D)	Proposed Cashflow (E)	Actual Cashflow (F)	Approved Cashflow (G)	Actual Cashflow (H)	Cashflow Variance (I)
REVENUE ACCOUNTS/RENT REVENUE: 5100										
1 Rent Revenue	5120	55,524	42,244	253,836	212,076	0	0	309,360	254,320	(55,040)
2 Tenant Assistance Payments	5121	0	0	0	0	0	0	0	0	0
3 Rent revenue - Stores and Commercial	5140	0	0	0	0	0	0	0	0	0
4 Garage and Parking Spaces	5170	0	0	0	0	0	0	0	0	0
5 Flexible Subsidy Revenue	5185	0	0	0	0	0	0	0	0	0
6 Miscellaneous Rent Revenue	5190	0	0	0	0	0	0	0	0	0
7 Excess Rent	5191	0	0	0	0	0	0	0	0	0
8 Rent Revenue/Insurance	5192	0	0	0	0	0	0	0	0	0
9 Special Claims Revenue	5193	0	0	0	0	0	0	0	0	0
10 Retained Excess Income	5194	0	0	0	0	0	0	0	0	0
11 GROSS RENT REVENUE	5100T	55,524	42,244	253,836	212,076	0	0	309,360	254,320	(55,040)
<i>Total Vacancies (HCD Use Only)</i>	<i>5200T</i>	<i>1,666</i>	<i>0</i>	<i>20,307</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>21,973</i>	<i>0</i>	<i>0</i>
ASSISTED LIVING/BOARD & CARE REVENUES: 5300										
17 Food	5332	0	0	0	0	0	0	0	0	0
18 Recreation (Activities) and Rehabilitation	5380	0	0	0	0	0	0	0	0	0
19 Rehabilitation	5385	0	0	0	0	0	0	0	0	0
20 Other Service Revenue	5390	0	0	0	0	0	0	0	0	0
<i>Total Living Revenue</i>	<i>6300T</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
FINANCIAL REVENUE: 5400										
21 Financial Revenue - Project Operations	5410	268	73	632	174	0	0	900	247	(653)
<i>Total Financial Revenue</i>	<i>5400T</i>	<i>268</i>	<i>73</i>	<i>632</i>	<i>174</i>	<i>0</i>	<i>0</i>	<i>900</i>	<i>247</i>	<i>(653)</i>
OTHER REVENUE: 5900										
22 Laundry and Vending Revenue	5910	596	818	1,404	1,929	0	0	2,000	2,747	747
23 NSF and Late Charges	5920	0	0	0	0	0	0	0	0	0
24 Damages and Cleaning Fees	5930	745	775	1,755	1,318	0	0	2,500	2,093	(407)
25 Forfeited Tenant Security Deposits	5940	0	0	0	0	0	0	0	0	0
26 Other Revenue	5990	0	0	0	0	0	0	0	0	0
<i>Total Other Revenue</i>	<i>5900T</i>	<i>1,341</i>	<i>1,593</i>	<i>3,159</i>	<i>3,247</i>	<i>0</i>	<i>0</i>	<i>4,500</i>	<i>4,840</i>	<i>340</i>
27 EFFECTIVE GROSS RENT (EGR)	5152T	55,467	43,910	237,320	215,497	0	0	292,787	259,407	(33,380)
28 TOTAL OPERATING EXPENSES	6000T	46,415	46,967	109,393	110,682	0	0	155,808	157,649	(1,841)
29 NET OPERATING INCOME (NOI)	5000T	9,052	(3,057)	127,927	104,815	0	0	136,979	101,758	(35,221)
FINANCIAL EXPENSES: 6800										
30 Non-Contingent Debt Service (specify lender)	6895	0	0	115,092	102,295	0	0	115,092	102,295	12,797
1st Mortgage=		0	0	0	0	0	0	0	0	0
2nd Mortgage=		0	0	0	0	0	0	0	0	0
3rd Mortgage=		0	0	0	0	0	0	0	0	0
31 HCD Required Payments	6890	0	12,382	0	0	0	0	0	12,382	(12,382)
32 Lease Payment	6890	0	0	0	0	0	0	0	0	0
33 Miscellaneous Financial Expenses	6890	0	0	0	0	0	0	0	0	0
<i>Total Financial Expenses</i>	<i>6800T</i>	<i>0</i>	<i>12,382</i>	<i>115,092</i>	<i>102,295</i>	<i>0</i>	<i>0</i>	<i>115,092</i>	<i>114,677</i>	<i>415</i>
FUNDED RESERVES:										
34 Escrow Deposits	1300	0	0	0	0	0	0	0	0	0
35 Replacement Reserve-Deposit	1320	4,900	4,900	11,550	11,550	0	0	16,450	16,450	0
36 Operating Reserve-Deposit	1300	0	0	0	0	0	0	0	0	0
37 Other Reserves (specify)		0	0	0	0	0	0	0	0	0
#1	1330	0	0	0	0	0	0	0	0	0
#2	1330	0	0	0	0	0	0	0	0	0
#3	1330	0	0	0	0	0	0	0	0	0
<i>Total Reserve Deposits</i>		<i>4,900</i>	<i>4,900</i>	<i>11,550</i>	<i>11,550</i>	<i>0</i>	<i>0</i>	<i>16,450</i>	<i>16,450</i>	<i>0</i>
38 PROJECT CASH FLOW (CF)		4,152	(20,339)	1,285	(9,030)	0	0	5,437	(29,369)	(34,806)
ADDITIONAL REVENUE:										
39 RHCP-O Annuity Fund Request (For Assisted Units Only)		0	0	0	0	0	0	0	0	0
40 Withdrawal from Operating Reserves		0	0	0	0	0	0	0	0	0
41 Borrower Contribution		0	0	0	0	0	0	0	0	0
42 Other (specify)		0	0	0	0	0	0	0	0	0
<i>Total Additional Revenue</i>		<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
USE OF CASH FLOW:										
43 HCD Interest Payments		0	0	0	0	0	0	0	0	0
44 Asset Mgmt Fee (CHRP-R/SUHRP & HOME-pre-UMR Only)		0	0	0	0	0	0	0	0	0
45 Asset Mgmt Fee/Partshp Costs (MHP/HOME under UMR)		0	0	0	0	0	0	0	0	0
46 Borrower Distributions		0	0	0	0	0	0	0	0	0
47 Residual Receipt Loan Payments		0	0	0	0	0	0	0	0	0
48 Other (specify)		0	0	0	0	0	0	0	0	0
<i>Total Use of Cash Flow</i>		<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>

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

To the Board of Directors
New Hope Community Development Corporation

We have audited the financial statements of the Cottonwood Meadows Project of the New Hope Community Development Corporation (NHCDC), Contract No. 83-RHC-141 (the Project) as of and for the year ended June 30, 2011, and have issued our report thereon dated April 10, 2012. 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

Management of NHCDC is responsible for establishing and maintaining effective 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 the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, 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 NHCDC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. In addition, we performed tests of its compliance with specific provisions of the California Department of Housing and Community Development (HCD) Regulatory Agreement and HCD directives, regulations, and procedures included therein. However, providing an opinion on compliance with those provisions and requirements was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed that the reserve for replacements has not been fully funded as disclosed in the accompanying schedule of findings and questioned costs.

This report is intended solely for the information and use of NHCDC, management and HCD and is not intended to be and should not be used by anyone other than these specified parties.

Reznick Group, P.C.

Sacramento, California
April 10, 2012

New Hope Community Development Corporation
Cottonwood Meadows Project
Contract No. 83-RHC-141

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2011

Statement of Condition No. 2011-1 - Reserve For Replacements

NHCDC has not fully funded the reserve for replacements as required under the HCD regulatory agreement. As of June 30, 2011, the underfunding of the reserve for replacement is as follows:

Underfunding for prior years ended:	
June 30, 2007	\$ 16,450
June 30, 2008	11,849
June 30, 2009	<u>11,779</u>
Underfunding as of June 30, 2010	40,079
Required 2011 deposits	<u>16,450</u>
Underfunding as of June 30, 2011	<u><u>\$ 56,529</u></u>

Criteria: NHCDC is required to fund \$16,450 annually to the reserve for replacements. NHCDC made the required deposits during the year ended June 30, 2010; however, NHCDC has not funded the reserve for the 3 fiscal years ended June 30, 2007 to June 30, 2009. In addition, NHCDC did not make the required deposits during the year ended June 30, 2011.

Effect: NHCDC does not have procedures in place to ensure that the reserve for replacements is funded as required under the agreements with HCD. In the current year, NHCDC was not able to make additional deposits to cover the underfunding from the prior years.

Cause: NHCDC did not establish policies and procedures to ensure that the reserve is being replenished to the amounts required.

Recommendation: Management should establish procedures and negotiate with HCD to implement a plan in order to make up for the underfunding from the prior years.

Auditee's Response: NHCDC agrees with the audit finding and will work with the Department of Housing and Community Development on a plan to bring the Replacement Reserve deposits up to date. Subsequent to year end, NHCDC made a deposit of \$16,450 on July 26, 2011 for the year ended June 30, 2011, and on November 9, 2011, NHCDC made a deposit of \$11,779 for the year ended June 30, 2009.

New Hope Community Development Corporation
Cottonwood Meadows Project
Contract No. 83-RHC-141

AUDITEE'S COMMENTS ON AUDIT RESOLUTION MATTERS

June 30, 2011

Finding No. 2010-1 - Reserve For Replacements

NHCDC has not fully funded the reserve for replacements as required under the HCD regulatory agreement.

Status: Outstanding. This condition continues to exist. See finding 2011-1.