

**HOUSING TRUST OF SANTA
CLARA COUNTY, INC.**

(A California Nonprofit Public Benefit Corporation)

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

YEARS ENDED JUNE 30, 2009 AND 2008

HOUSING TRUST OF SANTA CLARA COUNTY, INC.

(A California Nonprofit Public Benefit Corporation)

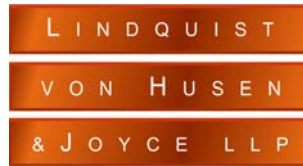
FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

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Board of Directors
Housing Trust of Santa Clara County, Inc.
San Jose, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statement of financial position of Housing Trust of Santa Clara County, Inc., a California nonprofit public benefit corporation, as of June 30, 2009, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Housing Trust of Santa Clara County, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Housing Trust of Santa Clara County, Inc. as of June 30, 2008, were audited by other auditors whose report dated August 29, 2008, expressed an unqualified opinion on those financial statements. As discussed in Note 13 to the financial statements, Housing Trust of Santa Clara County, Inc. has restated its June 30, 2008 financial statements during the current year to correct the misstatement of net assets released from restrictions, in conformity with accounting principles generally accepted in the United States of America. The other auditors reported on the June 30, 2008 financial statements before the restatement.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of Housing Trust of Santa Clara County, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Housing Trust of Santa Clara County, Inc. as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustments described in Note 13 that were applied to restate the June 30, 2008 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 23, 2009 on our consideration of Housing Trust of Santa Clara County, Inc.'s internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts, 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.

Lindquist, von Husen and Joyce LLP

September 23, 2009

HOUSING TRUST OF SANTA CLARA COUNTY, INC.

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2009 AND 2008

	<i>(As Restated see Note 13)</i>	
	2009	2008
ASSETS		
Current assets:		
Cash – unrestricted	\$ 1,188,930	\$ 1,633,541
Cash – restricted for programs	3,522,013	3,205,644
Certificates of deposit – unrestricted	2,665,929	2,000,000
	<u>7,376,872</u>	<u>6,839,185</u>
Receivables:		
Contributions, net – current (Note 3)	429,638	2,499,100
Lending capital provided for programs – current (Note 5)	1,726,249	268,449
Others	1,178,506	1,028,948
Prepaid expenses	33,205	12,246
Total current assets	<u>10,744,470</u>	<u>10,647,928</u>
Contributions receivable, net – net of current portion (Note 3)	933,537	282,897
Notes receivable – net (Note 4)	7,765,693	7,898,515
Lending capital provided for programs – net of current portion (Note 5)	9,830,626	8,645,017
Property and equipment – net (Note 6)	25,358	42,134
	<u>\$ 29,299,684</u>	<u>\$ 27,516,491</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 40,692	\$ 15,529
Accrued expenses	49,503	49,580
Interest payable (Note 7)	5,000	-
Total current liabilities	<u>95,195</u>	<u>65,109</u>
Notes payable (Note 7)	<u>1,500,000</u>	<u>500,000</u>
Total liabilities	<u>1,595,195</u>	<u>565,109</u>
Net assets:		
Unrestricted	22,643,806	19,931,468
Temporarily restricted (Note 9)	5,060,683	7,019,914
Total net assets	<u>27,704,489</u>	<u>26,951,382</u>
Total liabilities and net assets	<u>\$ 29,299,684</u>	<u>\$ 27,516,491</u>

The accompanying notes are an integral part of these financial statements.

HOUSING TRUST OF SANTA CLARA COUNTY, INC.

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2009 AND 2008

	2009			2008		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue:						
Contributions:						
Government	\$ -	\$ 1,267,000	\$ 1,267,000	\$ 5,749	\$ 1,125,000	\$ 1,130,749
Other	65,919	5,000	70,919	275,229	964,500	1,239,729
In-kind	-	-	-	53,297	-	53,297
Interest and investment income	358,644	-	358,644	335,429	-	335,429
Program service fees	108,170	-	108,170	8,276	-	8,276
Net assets released from restrictions (Note 9)	3,231,231	(3,231,231)	-	1,303,482	(1,303,482)	-
Total support and revenue	<u>3,763,964</u>	<u>(1,959,231)</u>	<u>1,804,733</u>	<u>1,981,462</u>	<u>786,018</u>	<u>2,767,480</u>
Expenses:						
Program services	684,854	-	684,854	814,664	-	814,664
Management and general	187,156	-	187,156	227,829	-	227,829
Fundraising	179,616	-	179,616	178,099	-	178,099
Total expenses	<u>1,051,626</u>	<u>-</u>	<u>1,051,626</u>	<u>1,220,592</u>	<u>-</u>	<u>1,220,592</u>
Change in net assets	2,712,338	(1,959,231)	753,107	760,870	786,018	1,546,888
Net assets, beginning of year, as restated (Note 13)	<u>19,931,468</u>	<u>7,019,914</u>	<u>26,951,382</u>	<u>19,170,598</u>	<u>6,233,896</u>	<u>25,404,494</u>
Net assets, end of year	<u>\$ 22,643,806</u>	<u>\$ 5,060,683</u>	<u>\$ 27,704,489</u>	<u>\$ 19,931,468</u>	<u>\$ 7,019,914</u>	<u>\$ 26,951,382</u>

The accompanying notes are an integral part of these financial statements.

HOUSING TRUST OF SANTA CLARA COUNTY, INC.

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2009 AND 2008

	2009							
	Program Services				Supporting Services			Total Program Supporting Services
	First-Time Home Buyer	Homeless Housing	Multi-Family Housing	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 179,587	\$ 26,505	\$ 26,505	\$ 232,597	\$ 59,176	\$ 87,329	\$ 146,505	\$ 379,102
Grants	7,000	137,500	-	144,500	-	-	-	144,500
Consulting	52,186	11,159	7,959	71,304	10,177	15,019	25,196	96,500
Staff recruitment	300	-	-	300	43,229	28,750	71,979	72,279
Legal and professional	28,801	-	-	28,801	35,872	-	35,872	64,673
Employee benefits	21,812	3,219	3,219	28,250	7,187	10,607	17,794	46,044
Rent	17,980	2,654	2,654	23,288	5,925	8,743	14,668	37,956
Payroll taxes	14,470	2,136	2,136	18,742	4,768	7,036	11,804	30,546
Program administration	7,500	-	10,500	18,000	-	-	-	18,000
Retirement plan contributions	6,152	753	753	7,658	1,864	2,604	4,468	12,126
Interest	11,674	-	-	11,674	-	-	-	11,674
Telephone	4,548	671	671	5,890	1,499	2,212	3,711	9,601
Outside computer services	4,237	625	625	5,487	2,016	2,060	4,076	9,563
Website support	4,098	605	605	5,308	1,350	1,993	3,343	8,651
Insurance	3,372	498	498	4,368	1,111	1,640	2,751	7,119
Office supplies	2,752	354	354	3,460	2,461	1,168	3,629	7,089
Contractor services	2,534	760	760	4,054	507	507	1,014	5,068
Auto	2,468	364	364	3,196	531	1,245	1,776	4,972
Membership dues	1,815	415	415	2,645	503	1,465	1,968	4,613
Bank service charges	1,146	169	169	1,484	1,484	-	1,484	2,968
Equipment and maintenance	1,196	176	176	1,548	394	581	975	2,523
Payroll processing fees	1,091	161	161	1,413	360	531	891	2,304
Capital purchases - equipment	1,029	152	152	1,333	339	501	840	2,173
Meeting and conference	1,255	224	224	1,703	146	191	337	2,040
Travel and accommodations	1,317	-	-	1,317	282	185	467	1,784
Staff development	93	14	14	121	11	1,585	1,596	1,717
Postage and delivery	630	-	-	630	630	429	1,059	1,689
Awards and gifts	-	-	-	-	1,168	-	1,168	1,168
Meals and entertainment	-	-	-	-	1,041	-	1,041	1,041
Printing and reproduction	502	66	66	634	147	218	365	999
Taxes	-	-	-	-	898	-	898	898
Publications	196	-	-	196	241	225	466	662
Miscellaneous	159	24	24	207	53	78	131	338
Promotional materials	-	-	-	-	-	152	152	152
Fines, penalties and judgments	-	-	-	-	50	-	50	50
Total operating expenses before provision for loan losses and depreciation	381,900	189,204	59,004	630,108	185,420	177,054	362,474	992,582
Provision for loan losses	47,922	-	-	47,922	-	-	-	47,922
Depreciation	5,268	778	778	6,824	1,736	2,562	4,298	11,122
Total expenses	\$ 435,090	\$ 189,982	\$ 59,782	\$ 684,854	\$ 187,156	\$ 179,616	\$ 366,772	\$ 1,051,626

The accompanying notes are an integral part of these financial statements.

HOUSING TRUST OF SANTA CLARA COUNTY, INC.

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2009 AND 2008

2008

	Program Services				Supporting Services			Total Program and Supporting Services
	First-Time Home Buyer	Homeless Housing	Multi-Family Housing	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 199,255	\$ 37,069	\$ 37,069	\$ 273,393	\$ 81,638	\$ 73,549	\$ 155,187	\$ 428,580
Grants	6,900	150,000	-	156,900	-	-	-	156,900
Consulting	333	7,583	5,667	13,583	-	36,218	36,218	49,801
Staff recruitment	-	-	-	-	34,534	15,175	49,709	49,709
Legal and professional	12,112	2,252	2,253	16,617	46,552	-	46,552	63,169
Employee benefits	37,369	6,952	6,952	51,273	15,311	13,794	29,105	80,378
Rent	21,570	4,010	4,013	29,593	8,837	7,961	16,798	46,391
Payroll taxes	14,754	2,745	2,745	20,244	6,045	5,446	11,491	31,735
Program administration	-	16,950	7,217	24,167	-	-	-	24,167
Retirement plan contributions	9,002	1,550	1,550	12,102	2,866	2,543	5,409	17,511
Telephone	3,786	704	704	5,194	1,551	1,397	2,948	8,142
Outside computer services	7,051	1,311	1,312	9,674	2,604	2,224	4,828	14,502
Website support	1,741	324	324	2,389	-	-	-	2,389
Insurance	3,509	652	653	4,814	1,438	1,295	2,733	7,547
Office supplies	1,379	256	257	1,892	7,570	570	8,140	10,032
Contractor services	-	-	-	-	2,856	-	2,856	2,856
Auto	590	110	110	810	1,868	1,081	2,949	3,759
Membership dues	1,166	217	217	1,600	253	9,200	9,453	11,053
Bank service charges	864	161	161	1,186	495	1,196	1,691	2,877
Equipment and maintenance	1,380	257	257	1,894	565	509	1,074	2,968
Payroll processing fees	980	182	182	1,344	402	362	764	2,108
Meeting and conference	1,606	299	299	2,204	911	74	985	3,189
Travel and accommodations	600	112	112	824	-	-	-	824
Staff development	182	34	34	250	1,207	-	1,207	1,457
Postage and delivery	-	-	-	-	700	84	784	784
Meals and entertainment	46	9	9	64	1,811	-	1,811	1,875
Printing and reproduction	-	-	-	-	2,521	489	3,010	3,010
Publications	164	30	30	224	360	378	738	962
Miscellaneous	-	-	-	-	397	-	397	397
Promotional materials	-	-	-	-	-	467	467	467
Donated goods and services	4,258	791	792	5,841	1,744	1,571	3,315	9,156
Total operating expenses before provision for loan losses and depreciation	330,597	234,560	72,919	638,076	225,036	175,583	400,619	1,038,695
Provision for loan losses	167,237	-	-	167,237	-	-	-	167,237
Depreciation	6,815	1,268	1,268	9,351	2,793	2,516	5,309	14,660
Total expenses	\$ 504,649	\$ 235,828	\$ 74,187	\$ 814,664	\$ 227,829	\$ 178,099	\$ 405,928	\$ 1,220,592

The accompanying notes are an integral part of these financial statements.

HOUSING TRUST OF SANTA CLARA COUNTY, INC.

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ 753,107	\$ 1,546,888
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	11,122	14,660
Provision for loan losses	47,922	162,737
Loss on retirement of fixed assets	5,654	-
Amortization of discount on contributions receivable	49,973	748
In-kind donations – capitalized equipment	-	(44,140)
(Increase) decrease in assets:		
Contributions receivable – net	1,368,849	1,023,954
Others	(149,558)	(1,020,948)
Prepaid expenses	(20,959)	4,158
Increase (decrease) in liabilities:		
Accounts payable	25,163	8,804
Accrued expenses	(77)	5,497
Interest payable	5,000	-
	<u>2,096,196</u>	<u>1,702,358</u>
Cash flows from investing activities:		
Purchase of property and equipment	-	(4,003)
Lending capital provided for programs	(3,744,727)	(1,845,000)
Repayment of lending capital provided for programs	1,101,318	48,980
Notes receivable – First-time Homebuyer Programs	(123,500)	(338,000)
Repayment of notes receivable – First-time Homebuyer Programs	208,400	258,900
Net (increase) decrease in restricted cash – programs	(316,369)	2,078,356
Certificates of deposit	(665,929)	(2,000,000)
	<u>(3,540,807)</u>	<u>(1,800,767)</u>
Cash flows from financing activities:		
Proceeds from notes payable	<u>1,000,000</u>	-
	<u>1,000,000</u>	-
Decrease in unrestricted cash	(444,611)	(98,409)
Unrestricted cash, beginning of year	<u>1,633,541</u>	<u>1,731,950</u>
Unrestricted cash, end of year	<u>\$ 1,188,930</u>	<u>\$ 1,633,541</u>
Supplementary information:		
Cash paid for interest	<u>\$ 6,675</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

HOUSING TRUST OF SANTA CLARA COUNTY, INC.

(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Housing Trust of Santa Clara County, Inc. (Housing Trust) was incorporated on May 22, 2000 as a non-profit public benefit corporation. Housing Trust was formed with the mission to serve as a catalyst to develop desperately needed housing in Santa Clara County through an innovative blend of corporate and community investors. Housing Trust is dedicated to building and sustaining a revolving loan fund and grant-making program that will leverage other housing resources throughout Silicon Valley. The goal of the Housing Trust is to make Santa Clara County a more affordable place to live.

In order to augment affordable housing throughout Santa Clara County, Housing Trust currently offers three programs:

- First-time Homebuyer Programs – Housing Trust offers the Downpayment Assistance Program, Mortgage Assistance Program, and Closing Cost Assistance Program to help qualified first-time homebuyers in Santa Clara County with downpayment and closing costs.
- Affordable Multi-Family Rental Program – The program is designed to help create affordable multi-family rental housing units in communities throughout Santa Clara County through grants and loans to qualified developers of affordable multi-family rental housing.
- Homeless and Special Needs Program – The program is designed to help prevent homelessness in cities across Santa Clara County through grants and loans to qualified developers of housing for the homeless and/or those with special needs.

Housing Trust is especially vulnerable to the inherent risks associated with revenue that is substantially dependent on government funding, corporations, public support and contributions located in Santa Clara County.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Method

Housing Trust uses the accrual method of accounting, which recognizes income in the period earned and expenses when incurred, regardless of the timing of payments.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Basis of Presentation

Housing Trust reports information regarding its financial position and activities according to up to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets, as applicable.

HOUSING TRUST OF SANTA CLARA COUNTY, INC.

(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

Revenue Recognition

Contributions are recognized as revenue when they are unconditionally communicated. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. Contributions are recorded at their fair value as unrestricted support, temporarily restricted support, or permanently restricted support, depending on the absence or existence of donor-imposed restrictions as applicable. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions restricted for the purchase of long-lived assets, are reported as unrestricted when expended for that purpose.

Contributions receivable, that are expected to be collected in future years, are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the contributions are received. Amortization of the discounts, if any, is included in contribution revenue. Conditional contributions receivable, if any, are not included as support until the conditions are substantially met.

Contributed services are stated at their estimated fair value, if they are ordinarily purchased and are of a specialized nature.

Cash

Cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are highly liquid investments that are readily convertible to known amounts of cash. Generally only investments with original maturities of 3 months or less qualify as cash equivalents. Housing Trust occasionally maintains cash on deposit at various banks in excess of the Federal Deposit Insurance Corporation limit and investment accounts in excess of the Securities Investor Protection Corporation limit. The uninsured cash balance was approximately \$3,212,000 as of June 30, 2009. Housing Trust has not experienced any losses in such accounts.

Contributions Receivable

Contributions receivable represent unconditional promises to give and are stated at the present value of the future cash flows Housing Trust expects to collect. The related discount on promises to give is amortized on a straight-line basis over the number of years the receivable is expected to be collected.

Notes Receivable and Allowance for Loan Losses

Notes receivable consists of loans made to first-time homebuyers under the Closing Cost Assistance Program and are carried at their outstanding principal balances, net of an allowance for loan losses. Loan origination fees are recognized immediately, which management has determined is not materially different from generally accepted accounting principles. All notes are secured. Management has the intent and ability to hold these notes in the foreseeable future or until maturity or payoff.

An allowance for loan losses is established through a charge to the Statement of Activities and decreased by loss as charged against loans, net of recoveries. The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, and economic conditions.

Certificates of Deposit

Certificates of deposit are stated at fair value based on unadjusted quoted prices that are readily and regularly available in an active market, which is defined as a level 1 input in accordance with the SFAS No. 157, "Fair Value Measurements".

HOUSING TRUST OF SANTA CLARA COUNTY, INC.

(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

Property and Equipment

Property and equipment is stated at cost of acquisition or fair value, if donated. The costs of maintenance and repairs are charged to expense as incurred. Depreciation is computed based on the straight-line method over the estimated useful lives of the assets ranging from 3 to 5 years.

Income Taxes

Housing Trust is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and the related California code sections.

Functional Expense Allocation

The costs of providing program services and supporting services are summarized on a functional basis in the statements of activities and statements of functional expenses. Accordingly, certain costs are allocated among program services and supporting services based on estimates of employees' time incurred and on usage of resources.

Subsequent events

Housing Trust has evaluated subsequent events through September 23, 2009, the date which the financial statements were available to be issued.

Reclassification

Certain amounts previously reported in the 2008 financial statements were reclassified to conform to the 2009 presentation for comparative purposes.

NOTE 3 – CONTRIBUTIONS RECEIVABLE

Contributions receivable are summarized as follows:

	<u>2009</u>	<u>2008</u>
Restricted for programs	\$ 1,400,700	\$ 2,737,550
Unrestricted contributions	30,751	62,750
Gross contributions receivable ⁽¹⁾	<u>1,431,451</u>	<u>2,800,300</u>
Less: unamortized discount	<u>(68,276)</u>	<u>(18,303)</u>
Net contributions receivable	<u>\$ 1,363,175</u>	<u>\$ 2,781,997</u>
Amounts due (net of unamortized discount) in:		
Less than one year	\$ 429,638	\$ 2,499,100
One year to five years	<u>933,537</u>	<u>282,897</u>
	<u>\$ 1,363,175</u>	<u>\$ 2,781,997</u>

⁽¹⁾ Total unconditional contributions receivable from the board of directors, companies with which the board of directors are affiliated, and jurisdictions represented on our board by elected officials were \$910,750 and \$835,000 as of June 30, 2009 and 2008, respectively.

HOUSING TRUST OF SANTA CLARA COUNTY, INC.

(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 4 – NOTES RECEIVABLE

Notes receivable consists of the following:

	<u>2009</u>	<u>2008</u>
Closing Cost Assistance Program ⁽¹⁾	\$ 7,976,352	\$ 8,061,252
Less: allowance for loan losses	<u>(210,659)</u>	<u>(162,737)</u>
Net notes receivable	<u>\$ 7,765,693</u>	<u>\$ 7,898,515</u>

- ⁽¹⁾ The program is designed to help qualified first-time homebuyers in Santa Clara County who have not owned a home within one year of the date of application. The program is currently available to eligible first-time home buyers purchasing a home in Sunnyvale or Morgan Hill. The loans are secured by deeds of trust, have a maximum loan amount of \$6,500 and bear 0% interest. Payment of principal is due in full on the maturity date of the related first loan, or upon any sale, transfer, assignment or refinance of the first loan, whichever occurs first.

The following are the details of activities on the allowance for loan losses during the years ended June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 162,737	\$ -
Provision for loan losses during the year	<u>47,922</u>	<u>162,737</u>
Balance, end of year	<u>\$ 210,659</u>	<u>\$ 162,737</u>

Future maturities on loans receivable within the next five years cannot be reasonably estimated.

NOTE 5 – LENDING CAPITAL PROVIDED FOR PROGRAMS

Lending capital provided for programs consists of the following:

	<u>2009</u>	<u>2008</u>
Neighborhood Housing Services Silicon Valley: Down payment Assistance Program ⁽¹⁾	\$ 500,000	\$ 500,000
Opportunity Fund:		
Affordable Multi-Family Rental Program ⁽²⁾	5,785,463	4,160,729
Homeless with Special Needs Program ⁽²⁾	<u>5,271,412</u>	<u>4,252,737</u>
Total	11,556,875	8,913,466
Less: current portion	<u>(1,726,249)</u>	<u>(268,449)</u>
Long-term portion	<u>\$ 9,830,626</u>	<u>\$ 8,645,017</u>

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YEARS ENDED JUNE 30, 2009 AND 2008

Future principal repayments are estimated as follows:

2010	\$ 1,726,249
2011	503,912
Thereafter	9,326,714

- (1) Housing Trust has entered into an agreement with Neighborhood Housing Services Silicon Valley (NHSSV) to serve as the fund administrator to manage the lending activities of its Downpayment Assistance Program. This includes making and approving loans using Housing Trust funds, monitoring and receiving monthly payments from the borrowers and remitting the same to the Housing Trust including any interest earned on idle funds, on a quarterly basis. Under this agreement, NHSSV will serve as the lender and will hold the note and deed of trust. Housing Trust established a fund of \$500,000 with NHSSV to provide fixed, below-market interest rate secondary financing that may be used as a downpayment for qualified first-time homebuyers in Santa Clara County. Qualified first-time homebuyers may borrow up to \$15,000 when they finance their homes through NHSSV. Loans are deferred for the first 60 months and payments will begin on the 61st month through the remaining 25 years of the loan. There were 16 loans originated by NHSSV during 2009 totaling \$240,000. There were no loans originated in 2008.
- (2) Housing Trust has entered into an agreement with Opportunity Fund (OF) to serve as the fund administrator to manage the lending and grant making activities of its Affordable Multi-Family Housing Program and the Homeless with Special Needs Program. Under this agreement, OF will work under the direction of the executive director of Housing Trust to underwrite and close loans using Housing Trust funds as the source of capital to the qualified developers. OF will serve as the lender and will hold the note and deed of trust. Also, OF is responsible for monitoring and receiving monthly payments from the borrowers and remitting the same to the Housing Trust including any interest earned on idle funds, on a quarterly basis. For the years ended June 30, 2009 and 2008, fees paid to OF for these services were \$10,500 and \$24,167, respectively. The qualified developers may borrow up to \$15,000 per affordable unit, up to maximum loan amount of \$500,000. For acquisition, predevelopment, and construction financing loan, the term of the loan is up to 24 months with fixed interest ranging from 2% to 4%. For permanent financing loan, the term of the loan is up to 55 years with deferred interest rate of up to 3%.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	2009	2008
Office equipment	\$ 22,946	\$ 53,192
Software	29,572	29,572
Furniture and fixtures	41,979	41,979
	94,497	124,744
Less: accumulated depreciation	(69,139)	(82,610)
Total property and equipment	<u>\$ 25,358</u>	<u>\$ 42,134</u>

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 7 – NOTES PAYABLE

Notes payable are secured by the property unless otherwise noted and consist of the following:

	2009		2008	
	<i>Interest Payable</i>	<i>Principal</i>	<i>Interest Payable</i>	<i>Principal</i>
Wells Fargo Bank loan, non-interest bearing. Principal is due on March 4, 2012.	\$ -	\$ 500,000	\$ -	\$ 500,000
Wells Fargo Bank loan, bears 2% simple interest. Required quarterly interest payments with entire principal and interest due in full on December 1, 2018. Housing Trust has the option to extend the repayment date of the loan by 2 years after the stated maturity date. Interest expense was \$11,675.	5,000	1,000,000	-	-
Total	\$ 5,000	\$ 1,500,000	\$ -	\$ 500,000

Scheduled principal payments on the notes payable for the next five years are estimated as follows:

2010	\$ -
2011	-
2012 – 2014	500,000

NOTE 8 – RELATED-PARTY TRANSACTIONS

Housing Trust's volunteer members of the board of directors are active in oversight of fundraising events, activities and in making private contributions. Certain board members also serve as elected officials on jurisdictions which support the Housing Trust. Contributions from the board of directors, from companies with which the board of directors is affiliated, or from jurisdictions represented on the board by an elected official were \$852,800 and \$723,000 as of June 30, 2009 and 2008, respectively.

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets are for the following purposes or periods:

	<i>June 30, 2008 (Restated)</i>	<i>Contributions</i>	<i>Releases from Restrictions</i>	<i>June 30, 2009</i>
General lending programs	\$ 3,915,223	\$ 925,000	\$ (1,056,420)	\$ 3,783,803
First-time Homebuyer Programs	866,369	247,000	(533,157)	580,212
Affordable Multi-Family Rental Program and Homeless with Special Needs Program	2,163,322	100,000	(1,566,654)	696,668
Program expenses	75,000	-	(75,000)	-
	\$ 7,019,914	\$ 1,272,000	\$ (3,231,231)	\$ 5,060,683

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

	<i>June 30, 2007</i> <i>(Restated)</i>	<i>Contributions</i>	<i>Releases from</i> <i>Restrictions</i>	<i>June 30, 2008</i> <i>(Restated)</i>
General lending programs	\$ 3,596,635	\$ 904,500	\$ (585,912)	\$ 3,915,223
First-time Homebuyer Programs	47,750	1,145,000	(326,381)	866,369
Affordable Multi-Family Rental Program and Homeless with Special Needs Program	2,554,511	-	(391,189)	2,163,322
Program expenses	35,000	40,000	-	75,000
	<u>\$ 6,233,896</u>	<u>\$ 2,089,500</u>	<u>\$ (1,303,482)</u>	<u>\$ 7,019,914</u>

Contributions received from government entities are released from restrictions once the funds are disbursed to qualified borrowers within the cities specified by the donors, granted as contributions to qualified organizations or used as program expense based on maximum amounts allowed by the donors. To the extent that agreements have secondary-use restrictions requiring Housing Trust to re-use the funds for another purpose, then restrictions are released when the secondary-use restrictions are fulfilled either through grants made to qualified organizations or use of funds for program expenses based on maximum amounts allowed by the donors. A total of \$2,126,087 is included in temporarily restricted net assets for funds that have secondary-use restrictions as of June 30, 2009.

NOTE 10 – PENSION PLAN

Housing Trust has established a defined contribution plan (the Plan) for all eligible full-time employees. An employee must have three (3) months of service before they can participate in the Plan. Employees are not required to contribute to the plan and the employee retirement accounts are immediately full vested. Housing Trust contributes 5% of eligible employees' compensation and contributed \$12,126 and \$17,511 to the Plan during 2009 and 2008, respectively.

NOTE 11 – LEASE

Housing Trust entered into a lease agreement for office space in San Jose which will expire in August 2012. The future minimum annual lease payments at June 30, 2009 are as follows:

2010	\$ 39,045
2011	40,234
2012	41,424
2013	<u>6,937</u>
	<u>\$ 127,640</u>

Rent expense for the years ended June 30, 2009 and 2008 was \$37,956 and \$35,410.

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NOTES TO FINANCIAL STATEMENTS

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NOTE 12 – COMMITMENTS AND CONTINGENCIES

Amounts related to undisbursed loan commitments as of June 30, 2009 follow:

Affordable Multi-Family Rental Housing Program	\$ 500,000
Homeless with Special Needs Program	1,000,000
Downpayment Assistance Program	<u>105,000</u>
	<u>\$ 1,605,000</u>

NOTE 13 – PRIOR PERIOD ADJUSTMENTS

Certain errors in previously issued financial statements were discovered and corrected in 2009 which resulted in an increase (decrease) in the balance of temporarily restricted net assets totaling \$(237,180) and \$592,112 as of June 30, 2008 and 2007, respectively. Details follow:

	<i>Unrestricted Net Assets</i>	<i>Temporarily Restricted Net Assets</i>	<i>Total</i>
Balance, June 30, 2007, as restated	\$ 19,170,598	\$ 6,233,896	\$ 25,404,494
Change in net assets, as previously reported	523,690	1,023,198	1,546,888
Adjustment for funds with secondary-use restrictions that were erroneously released from restrictions ⁽¹⁾	(500,608)	500,608	-
Adjustment for understatement of net assets released from restrictions ⁽²⁾	737,788	(737,788)	-
Change in net assets, as restated	<u>760,870</u>	<u>786,018</u>	<u>1,546,888</u>
Balance, June 30, 2008, as restated	<u>\$ 19,931,468</u>	<u>\$ 7,019,914</u>	<u>\$ 26,951,382</u>

	<i>Unrestricted Net Assets</i>	<i>Temporarily Restricted Net Assets</i>	<i>Total</i>
Balance, June 30, 2007, as previously reported	\$ 19,762,710	\$ 5,641,784	\$ 25,404,494
Adjustment for overstatement of net assets released from restrictions ⁽¹⁾	(592,112)	592,112	-
Balance, June 30, 2007, as restated	<u>\$ 19,170,598</u>	<u>\$ 6,233,896</u>	<u>\$ 25,404,494</u>

⁽¹⁾ Housing Trust received government contributions that require Housing Trust to re-use the funds for other purposes specified by the donors once the funds are collected from the initial borrowers. Thus, the contributions from certain donors with secondary-use restrictions are still temporarily restricted even after the funds were already used to meet the original purpose. Housing Trust had released \$592,112 through June 30, 2007 and \$500,608 during 2008. These errors were corrected in 2009.

⁽²⁾ Certain temporarily restricted net assets totaling \$737,788 met the purpose of the fund restrictions during 2008 but were not released from restrictions in that year. The error was corrected in 2009.