

**HOUSING ENDOWMENT AND REGIONAL TRUST
OF SAN MATEO COUNTY**



**Financial Statements and
Independent Auditor's Report
June 30, 2011 and 2010**

**HOUSING ENDOWMENT AND REGIONAL TRUST
OF SAN MATEO COUNTY**

JUNE 30, 2011 and 2010

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555 County Center, 4th Floor
Redwood City, California 94063-1665

Telephone: (650) 363-4777
Email: Controller@smcgov.org
www.co.sanmateo.ca.us/controller



Bob Adler
Controller

County of San Mateo
Office of the Controller

Juan Raigoza
Deputy Controller

Independent Auditor's Report

To the Board of Directors
Housing Endowment and Regional Trust
of San Mateo County

We have audited the accompanying basic financial statements of the Housing Endowment and Regional Trust of San Mateo County (HEART) as of and for the years ended June 30, 2011 and 2010. These financial statements are the responsibility of HEART's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits 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 audits provide a reasonable basis for our opinion.

As required by various statutes within the California Government Code, County Auditor-Controllers are mandated to perform certain accounting, auditing, and financial reporting functions. These activities, in themselves, necessarily impair *Government Auditing Standards* of independence. Specifically, "auditors should not audit their own work or provide non-audit services in situations where the amounts or services involved are significant and/or material to the subject of the audit." Although the County Controller is statutorily obligated to maintain the accounts of departments, agencies or funds that are contained within the county treasury, we believe adequate safeguards and division of responsibility exist. The Controller's Internal Audit Division, which has the responsibility to perform audits, has no other responsibility for the accounts and records being audited including the approval or posting of the transactions subject to audit. This would therefore enable the reader of this report to rely on the information contained herein.

In our opinion, except for the effects, if any, of the disclosure noted above, the financial statements referred to above present fairly, in all material respects, the financial position of HEART as of June 30, 2011 and 2010, and the changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1(e) to the basic financial statements, effective July 1, 2010, HEART adopted the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2012, on our consideration of HEART'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 conjunction with this report in considering the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 25 through 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the HEART's basic financial statements as a whole. The Status of Funds information on page 27 is presented for purposes of additional analysis and is not a required part of the basic financial statements of HEART. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

County of San Mateo Controller

Redwood City, California

March 2, 2012

HOUSING ENDOWMENT AND REGIONAL TRUST OF SAN MATEO COUNTY MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Housing Endowment and Regional Trust of San Mateo County (HEART), we offer our readers of HEART's financial statements this narrative overview and analysis of its financial activities for the fiscal year ended June 30, 2011 and June 30, 2010. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes.

Financial Highlights

- HEART's total net position as of June 30, 2011 amounted to \$7,144,617, an increase of \$213,396 from prior year. The increase was due to the excess of revenues over expenses during the current year. HEART continues to receive donations through fundraising and investment earnings increased with additional interest earned on new and existing loans receivable.

HEART's total net position in prior year amounted to \$6,931,221, an increase of \$969,600 from fiscal 2009. The increase in the prior year was also due to the excess of revenues over expenses, as HEART received more donations through continued fundraising and there were increases in securities collateral and investment earnings.

- Consistent with prior year, most of the \$7,144,617 in net position comprised of outstanding loans receivable from housing developers and surplus cash.
- HEART loaned \$1,325,151 to developers during the current year to assist in the development of low-income housing for seniors and working families, an increase of \$1,184,870 compared to \$140,281 loaned to developers in the prior year.
- Total program revenue for the current year amounted to \$421,128 comprising of contributions from member agencies (\$291,761), donor contributions (\$122,967), and charges for services (\$6,400) to process loans under the Home Buyer Assistance Loan Program. Total program revenue for the prior year amounted to \$1,191,306 comprising of contributions from member agencies (\$291,761) and donor contributions (\$899,545).

Overview of the Financial Statements

HEART's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide the reader with a broad overview of HEART's finances, in a manner similar to a private-sector business.

The *statements of net positions* present information on HEART's assets and liabilities, with the difference reported as *net positions*. Over time, increases or decreases in net positions may serve as a useful indicator of whether the financial position of HEART is improving or deteriorating.

The *statements of activities* report how HEART's net positions changed during the most recent two fiscal years. Changes in net positions are reported as soon as underlying events occur, regardless of the timing of the related cash flows. Thus, some revenues and expenses reported in this statement may result in cash flows only in future periods. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

HOUSING ENDOWMENT AND REGIONAL TRUST OF SAN MATEO COUNTY MANAGEMENT'S DISCUSSION AND ANALYSIS

The government-wide financial statements can be found on pages 8 and 9 of this report.

Fund Financial Statements

A fund is a group of related accounts that is used to control resources that have been segregated for specific activities or objectives. HEART uses fund accounting to ensure compliance with various legal requirements, such as the annually adopted budget. Accordingly, a budgetary comparison schedule has been included in the supplementary information section of the financial statements to demonstrate compliance with budget.

Fund financial statements report essentially the same information as in the government-wide financial statements. However, unlike the government-wide financial statements, fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year.

As required by accounting principles, the financial transactions of HEART are accounted for in a Special Revenue Fund, a governmental fund, as monies received by it are legally restricted to specific use. Monies allocated and disbursed to HEART can be expended only for purposes authorized under the Agreement.

The fund financial statements can be found on pages 10 through 12 of this report.

Notes to the Financial Statements

The *notes to the financial statements* on pages 13 through 24 provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements.

Other Information

This report also presents certain required supplementary information concerning compliance with HEART's annual budget. This information, as well as associated notes, immediately follows the basic financial statements and the accompanying notes.

**HOUSING ENDOWMENT AND REGIONAL TRUST OF SAN MATEO COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Financial Analysis

Net Positions

Net Positions	2011	2010	2009
Cash and cash equivalents	\$ 3,164,876	\$ 2,067,860	\$ 1,381,608
Securities lending collateral	-	463,745	63,958
Receivable and prepaid expense	6,149,261	5,512,235	6,270,616
Restricted cash	662,968	1,937,661	937,123
Total Assets	<u>9,977,105</u>	<u>9,981,501</u>	<u>8,653,305</u>
Accounts payable	5,000	5,000	92,712
Securities lending collateral due	-	463,745	63,958
Long-term liabilities	2,827,488	2,581,535	2,535,014
Total Liabilities	<u>2,832,488</u>	<u>3,050,280</u>	<u>2,691,684</u>
Net positions-restricted	662,968	1,937,661	937,123
Net positions-unrestricted	<u>6,481,649</u>	<u>4,993,560</u>	<u>5,024,498</u>
Total NetPositions	<u><u>\$ 7,144,617</u></u>	<u><u>\$ 6,931,221</u></u>	<u><u>\$ 5,961,621</u></u>

- Total Assets are \$9,977,105, a decrease of \$4,396 or .04% compared to prior year. The decrease was mostly due to less cash on hand and no securities lending collateral. As of October 2010 the County stopped participating in securities lending activity and had no securities out on loan as of June 30, 2011. The decrease was offset by increase in receivables. Total assets were \$9,981,501 in prior year, an increase of \$1,328,196 or 15% compared to fiscal 2009. The increase was mostly due to an increase in cash and cash equivalents, securities lending collateral, and restricted assets due to restricted grant received from large donor.
- Total liabilities are \$2,832,488, a decrease of \$217,792 or 7% compared to prior year. The decrease was attributed to no securities collateral due at year end offset by additional interest payable on long-term liabilities. Total liabilities were \$3,050,280 in the prior year and increased \$358,596 or 13% compared to fiscal 2009. The increase was due to increase in securities lending collateral due and interest payable on long-term liabilities offset by decrease in accounts payable.
- Net position is \$7,144,617, an increase of \$213,396 or 3% compared to the previous fiscal year and is divided into restricted (\$662,968) and unrestricted (\$6,481,649) portions. Restricted net positions are monies received for specific programs that must be used exclusively for the purpose designated. Unrestricted net position is available expendable assets that are not designated or restricted for specific use. Consistent with prior year, the increase in net position was due to the excess of revenues over expenses during the current year. Net position was \$6,931,221 in prior year, an increase of \$969,600 or 16% compared to fiscal 2009 and was divided into restricted (\$1,937,661) and unrestricted (\$4,993,560) portions.

**HOUSING ENDOWMENT AND REGIONAL TRUST OF SAN MATEO COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Changes in Net Positions

Changes in Net Positions	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenues:			
Program Revenues:			
Operating grants and contributions	\$ 421,128	\$ 1,191,306	\$ 568,958
General Revenues	<u>173,348</u>	<u>137,475</u>	<u>6,214</u>
Total Revenues	<u>594,476</u>	<u>1,328,781</u>	<u>575,172</u>
Expenses:			
General management and admin support	304,031	282,472	271,710
Legal services	10,000	10,000	10,000
Interest on long-term debt	65,953	66,521	42,500
Miscellaneous	<u>1,096</u>	<u>188</u>	<u>26,317</u>
Total Expenses	<u>381,080</u>	<u>359,181</u>	<u>350,527</u>
Change in Net Positions	213,396	969,600	224,645
Net Positions - beginning	<u>6,931,221</u>	<u>\$ 5,961,621</u>	<u>5,736,976</u>
Net Positions - ending	<u>\$ 7,144,617</u>	<u>\$ 6,931,221</u>	<u>\$ 5,961,621</u>

- Revenues during the current period were \$594,476, a decrease of \$734,305 or 55% compared to the prior fiscal year. This was primarily the result of a decrease in operating grants and contributions revenue. Revenues during the prior period were \$1,328,781; an increase of \$753,609 or 131% compared to fiscal 2009. This was primarily the result of an increase in operating grants and contributions revenue.
- Total expenses incurred during the current period amounted to \$381,080; for an increase of \$21,899 or 6% compared to the prior fiscal year. This was mostly due to increases in general and administrative support and miscellaneous expenses offset by interest on long-term debt. Total expenses incurred during the prior period amounted to \$359,181; for an increase of \$8,654 or 2% compared to fiscal 2009. This was due to increases in general and administrative support and interest on long-term debt offset by miscellaneous expenses.

**HOUSING ENDOWMENT AND REGIONAL TRUST OF SAN MATEO COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Budgetary Analysis

	Final Amended Budget (1)	Actual Amount - Budgetary Basis (1)	Variance – Positive (Negative)
Total Revenues and Other Financing Sources	\$ 324,761	\$ 348,161	\$ 23,400
Total Expenditures and Other Financing Uses	(324,725)	(314,031)	10,694
Net Change in Fund Balance	<u>\$ 36</u>	<u>\$ 34,130</u>	<u>\$ 34,094</u>

- (1) The 'Final Amended Budget' column represents the Administrative funds budget only. There was no budget adopted in the current year for Program funds. The 'Actual Amount – Budgetary Basis' column represents revenues and expenditures for Administrative funds during the year.

Actual expenditures were less than budgeted amounts by \$10,694. The positive variances were due to more contributions received and less expenditures incurred than budgeted. Overall, there was a favorable variance of \$34,094 during the year.

The budgetary comparison information can be found on pages 25 through 26 of this report.

Beyond FY2011

HEART completed its efforts to raise \$3 Million in funds from private sources through a capital campaign begun in 2008. The Board celebrated the completion of this campaign in July 2011. Our fund development efforts for the future are focused on our spring luncheon event in May 2012 and ongoing private sector fund development.

In late spring 2008, HEART launched “Opening Doors in Our Community,” a first-time homebuyer assistance program. In summer 2008, HEART made its first down payment assistance loan to a homebuyer. The loan was immediately purchased by Meriwest Mortgage Company, HEART’s financial partner for the homebuyer assistance program. Since then we have produced about 30 loans and are confident the program could provide as many as 15 loans per month. Our goal is to provide an average one loan per week starting in 2013, by adding new partner lenders.

In May 2011, HEART committed \$163,636 to housing developer, East Palo Alto Community Alliance and Neighborhood Development Organization (EPA Can Do) through the QuickStart Revolving Loan Fund. The agreement was executed in July 2011.

HEART began to re-position its fund to reduce risk of its costs of loaned funds in the trust, paying off \$1.5 Million of CalHFA loans. HEART returned a \$150,000 grant funds to Silicon Valley Community Foundation that had passed its timeline for use.

HEART plans new programs for longer term loans at low interest. HEART looks forward to bringing Proposition 1C money, a total of \$2 Million, into the fund.

Requests for Information

This financial report is designed to provide a general overview of HEART’s finances for all those interested. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to Housing Endowment and Regional Trust, 139 Mitchell Avenue, Suite 108, South San Francisco, CA 94080.

BASIC FINANCIAL STATEMENTS
Government-Wide Financial Statements

Housing Endowment and Regional Trust of San Mateo County
Statements of Positions
June 30, 2011 and 2010

	Governmental Activities	
	2011	2010
Assets		
Cash and cash equivalents (Note 2)	\$ 3,164,876	\$ 2,067,860
Securities lending collateral (Note 2(g))	-	463,745
Receivables, net (Note 3):		
Interest	307,860	247,609
Loans	5,825,151	5,250,000
Other	1,316	-
Prepaid expense (Note 4)	693	14,626
Due From Other Fund (Note 5)	14,241	-
Restricted assets (Note 1 (b)):		
Temporarily restricted:		
Cash and cash equivalents	662,968	1,937,661
Total Assets	9,977,105	9,981,501
Liabilities		
Accounts payable (Note 6)	5,000	5,000
Securities lending collateral due (Note 2(g))	-	463,745
Noncurrent liabilities (Note 7):		
Due in more than one year	2,827,488	2,581,535
Total Liabilities	2,832,488	3,050,280
Net Positions		
Restricted for (Note 9):		
QuickStart Revolving Loan - housing developers	325,174	505,217
Debt service - Loan Loss Reserve Account	30,000	30,000
Home Buyer Assistance Loan Program - pledge account	307,794	402,444
Grant- City of South San Francisco Housing	-	1,000,000
Unrestricted	6,481,649	4,993,560
Total Net Positions	\$ 7,144,617	\$ 6,931,221

The notes to the financial statements are an integral part of this statement.

Housing Endowment and Regional Trust of San Mateo County
Statements of Activities
For the Years Ended June 30, 2011 and 2010

	Governmental Activities	
	<u>2011</u>	<u>2010</u>
Expenses		
General management and administrative support	\$ 304,031	\$ 282,472
Legal services	10,000	10,000
Interest on long-term debt (Note 7)	65,953	66,521
Miscellaneous	1,096	188
Total Expenses	<u>381,080</u>	<u>359,181</u>
 Program Revenues		
Operating grants and contributions (Note 8):		
Member agencies	291,761	291,761
Donors	122,967	899,545
Charges for Services	6,400	-
Total Program Revenues	<u>421,128</u>	<u>1,191,306</u>
Net Program Revenue	40,048	832,125
 General Revenues (Expenses)		
Investment earnings (Note 8(b))	<u>173,348</u>	<u>137,475</u>
Total General Revenues (Expenses)	<u>173,348</u>	<u>137,475</u>
 Change in Net Positions	213,396	969,600
 Net Positions - beginning	<u>6,931,221</u>	<u>5,961,621</u>
Net Positions - ending	<u><u>\$ 7,144,617</u></u>	<u><u>\$ 6,931,221</u></u>

The notes to the financial statements are an integral part of this statement.

BASIC FINANCIAL STATEMENTS
Fund Financial Statements

Housing Endowment and Regional Trust of San Mateo County
Balance Sheets - Governmental Fund
June 30, 2011 and 2010

	2011	2010
Assets		
Cash and cash equivalents (Note 2)	\$ 3,164,876	\$ 2,067,860
Securities lending collateral (Note 2(g))	-	463,745
Interest receivable (Note 3 (a))	20,700	7,882
Other receivable (Note 3 (b))	1,316	-
Prepaid Expense (Note 4)	693	14,626
Due From Other Fund (Note 5)	14,241	-
Cash - restricted (Note 1(b))	662,968	1,937,661
Total Assets	\$ 3,864,794	\$ 4,491,774
Liabilities and Fund Balance		
Liabilities:		
Accounts payable (Note 6)	\$ 5,000	\$ 5,000
Securities lending collateral due (Note 2(g))	-	463,745
Total Liabilities	5,000	468,745
Fund Balance (Note 9):		
Restricted	662,968	1,937,661
Committed	403,531	200,000
Assigned	2,793,295	1,885,368
Total Fund Balance	3,859,794	4,023,029
Total Liabilities and Fund Balance	\$ 3,864,794	\$ 4,491,774
Reconciliation of Fund Balance Sheets to the Statements of Net Positions:		
Total Fund Balance - Governmental Fund	\$ 3,859,794	\$ 4,023,029
Amounts reported for governmental activities in the statements of net positions (page 7) are different because:		
Long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the fund.		
Loans receivable	5,825,151	5,250,000
Interest receivable	287,160	239,727
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the fund.		
	(2,827,488)	(2,581,535)
Net positions of governmental activities	\$ 7,144,617	\$ 6,931,221

The notes to the financial statements are an integral part of this statement.

**Housing Endowment and Regional Trust of San Mateo County
Statements of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund
For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Revenues (Note 8)		
Member agency contributions	\$ 291,761	\$ 291,761
Donor contributions	122,967	899,545
Charges for Services	6,400	-
Investment earnings	125,438	52,221
Total Revenues	<u>546,566</u>	<u>1,243,527</u>
Expenditures		
General management and administrative support	304,031	282,472
Legal services	10,000	10,000
Miscellaneous	619	188
Debt service (Note 7):		
Interest	20,000	20,000
Total Expenditures	<u>334,650</u>	<u>312,660</u>
Excess of Revenues Over Expenditures	211,916	930,867
Other Financing Sources (Uses)		
Loan proceeds	200,000	-
Loan repayments	750,000	1,000,000
Loan funding	(1,325,151)	(140,281)
Total Other Financing Sources (Uses)	<u>(375,151)</u>	<u>859,719</u>
Net Change in Fund Balance	(163,235)	1,790,586
Fund Balance - Beginning	<u>4,023,029</u>	<u>2,232,443</u>
Fund Balance - Ending	<u>\$ 3,859,794</u>	<u>\$ 4,023,029</u>

The notes to the financial statements are an integral part of this statement.

**Housing Endowment and Regional Trust of San Mateo County
Reconciliation of the Statements of Revenues, Expenditures,
and Changes in Fund Balance of Governmental Fund
to the Statements of Activities
For the Years Ended June 30, 2011 and 2010**

	2011	2010
Amounts reported for governmental activities in the statements of activities (page 9) are different because:		
Net change in fund balance - governmental fund (page 11)	\$ (163,235)	\$ 1,790,586
Loan funding is reported as financing uses in the governmental fund and thus contribute to the change in fund balance. In the statement of activities, however, these payments increase long-term assets and do not affect the statement of activities.	1,325,151	140,281
Loan repayments are reported as financing sources in the governmental fund and thus contribute to the change in fund balance. In the statement of activities, however, these proceeds decrease long-term assets and do not affect the statement of activities.	(750,000)	(1,000,000)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	47,910	85,254
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.	(46,430)	(46,521)
Loan proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of activities, however, issuing debt increases long-term liabilities and does not affect the statement of activities.	(200,000)	-
Change in net positions of governmental activities	\$ 213,396	\$ 969,600

The notes to the financial statements are an integral part of this statement.

BASIC FINANCIAL STATEMENTS
Notes to the Basic Financial Statements

HOUSING ENDOWMENT AND REGIONAL TRUST OF SAN MATEO COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

On February 26, 2002, the County of San Mateo (County) approved establishment of a housing trust fund for the County and set aside \$3 Million from reserves to be used as the initial capitalization for the fund. A Joint Powers Agreement (Agreement) between the County and certain cities and towns within the County (Member Agencies) established the Housing Endowment and Regional Trust (HEART) in 2003 under the Joint Exercise of Powers Act per California Government Code Sections 6500 et seq. The Agreement will be in effect at least until March 30, 2013 and can be terminated thereafter according to the terms specified in the Agreement. HEART's general purpose is to support and generate funding that will result in permanent additions to the workforce and to meet critical housing needs in San Mateo County. HEART obtained a determination from the Internal Revenue Service of its tax-exempt status and classification as a public charity under Section 501(c)(3) of the Internal Revenue Code (Code), effective January 8, 2008. Contributions to HEART are tax deductible under Section 170 of the Code.

HEART is an entity separate from each participating entity and is under the direction of a Board of Directors (Board). The Board is comprised of 11 elected officials from the County and Member Agencies and 10 at-large members who are not publicly elected officials. The Board appoints a managing agent who is responsible for the day-to-day administration of HEART under its direction.

The County also made an initial allocation of \$75,000 for administrative costs in addition to the \$3 Million initial capitalization. HEART received \$2.075 Thousand in fiscal year 2004 and the remaining \$1 Million was paid in equal installments from fiscal years 2005 through 2009. The Member Agencies support HEART by contributing annual dues. The dues were assessed annually through fiscal year 2009 based upon Member Agency's population information used by City/County Association of Governments of San Mateo County (C/CAG). The dues remained fixed from fiscal years 2009 through 2011.

The financial transactions of HEART are accounted for in a Special Revenue Fund, as monies received by it are legally restricted to specific use. Monies allocated and disbursed to HEART can be expended only for purposes authorized under the Agreement.

(b) Measurement focus, basis of accounting, and financial statement presentation

Under the new financial reporting model, governments are required to present government-wide and fund financial statements along with reconciliation from the fund financial statements to the government-wide statements. The government-wide financial statements are reported on a basis of accounting similar to a commercial enterprise, which is different from the traditional basis of accounting used for the fund financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred regardless of when the related cash flows take place. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues from reimbursement type programs are considered to be *available* when they are collectible within six months of the end of the current fiscal period in order to properly match revenues with related expenditures. Expenditures are recognized in the accounting period in which the liability is incurred.

HOUSING ENDOWMENT AND REGIONAL TRUST OF SAN MATEO COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents: Cash and cash equivalents include all monies held in banks, highly liquid investments with maturities of less than three months and cash held in the San Mateo County Investment Pool (County Pool). A portion of the cash balance is pooled with other funds of the County to earn a higher rate of return than could be earned by investing the funds individually. HEART considers its equity in the County's investment pool to be cash equivalents.

Receivables: All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Restricted Assets: Amounts maintained in separate bank accounts are classified as restricted assets on the balance sheet because use of the funds are externally restricted by the lending agencies to maintain a Loan Loss Reserve Account and minimum balance in the Pledge Account for financing eligible housing developers and homeowners. See Note 9.

Long-term Obligations: Long-term debts are reported as liabilities in the government-wide financial statements. In the fund financial statements, governmental fund types report the face amount of the debt issued as other financing sources and interest and principal payments made in the current period are reported as debt service expenditures.

(c) Use of Estimates

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

(d) Budgetary Information

HEART adopts an annual budget for the administrative fund that can be amended throughout the year. The basis used to prepare the budget is the same as the basis used to reflect actual revenues and expenditures except that unrealized gains and losses are not included in the budget. HEART does not adopt a budget for the Program Fund. See Note 1 of the notes to the required supplementary information for detail.

(e) Implementation of Governmental Accounting Standards Board (GASB) Statement No. 63

HEART early implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

2. CASH AND CASH EQUIVALENTS

(a) Cash and Cash Equivalents

A portion of the cash reported in the *statements of net positions* is pooled with other funds in the County Pool, which is a governmental investment pool managed and directed by the elected San Mateo County Treasurer. The

HOUSING ENDOWMENT AND REGIONAL TRUST OF SAN MATEO COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

2. CASH AND CASH EQUIVALENTS (continued)

(a) Cash and Cash Equivalents

County Pool is not registered with the Securities and Exchange Commission. An oversight committee comprised of local government officials and various participants provide oversight to the management of the fund. HEART is a voluntary participant in the County Pool.

Cash and cash equivalents in the County Pool are reported at fair value, as required by GASB 31. The change in fair value for the year is recorded as unrealized gain or loss and reported as part of investment earnings. Fair value is based on information provided by the County Treasurer. The fair value of cash and cash equivalents held with the County Treasurer at fiscal year-end was \$2,924,608 (2010: \$3,027,425) and the book value was \$2,918,143 (2010: \$3,015,643).

(b) Authorized Investments of the County Pool

The County Pool's Investment Policy and the California Government Code allow the County Pool to invest in the following, provided the credit ratings of the issuers are acceptable to the County Pool. The following also identifies certain requirements of the County Pool and California Government Code that address interest rate risk, credit risk, and concentrations of credit risk:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum % Allowed in Portfolio	Maximum % Investment in One Issuer
U.S. Treasury Obligations	7 years	AAA	100	100
Obligations of U.S. Agencies or government sponsored enterprises	7 years	AAA	100	40
U.S. Agencies Callables	7 years	AAA		25
Bankers acceptances	180 days	A1/P1/F1	15	5
Collateralized time deposits within the State of California	1 year	A1/P1/F1	15	5
Negotiable certificates of deposit	5 years 270 days or less	A1/P1/F1	30	5
Commercial paper		A1/P1/F1	40	5
Repurchase agreements secured by U.S Treasury or agency obligation	92 days	AAA	100	See U.S Treasury / Agency limitations above
Corporate bonds, Medium term notes, Covered bonds	5 years	A	30	5
Local Agency Investment Fund (LAIF)	-	-	Up to the current state limit	-
Shares of beneficial interest	-	A1/P1	10	5
Mortgage backed securities	5 years	A	20	5
Asset backed securities	5 years	AAA	20	5

HOUSING ENDOWMENT AND REGIONAL TRUST OF SAN MATEO COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

2. CASH AND CASH EQUIVALENTS (continued)

At June 30, 2011, the County Pool was invested in the following securities:

Investment Type	Interest Rate	Maturities	Weighted Average Maturity (Years)	Rating
U.S. government securities	0.045 – 2.125%	7/14/11 – 6/30/16	1.98	AAA
U.S. government agency securities	0.020 – 2.815%	7/5/11 – 11/23/15	1.11	AAA
U.S. government agency securities - floating rate	0.096 – 0.202%	8/1/11 – 5/1/12	.39	AAA
Corporate bonds	0.875 – 5.900%	8/1/12 – 5/19/16	3.00	AAA, AA+, AA, AA-
Floating rate securities	0.301 – 1.875%	1/24/12 – 5/30/14	1.99	AA+, AA-, A+, A, A-
Commercial Paper	0.090 – 0.180%	7/14/11 – 8/26/11	0.08	AA-, AA+
Certificate of Deposit	0.476 – 0.926%	1/19/12 – 1/18/13	1.05	AA-, A+
Repurchase agreements	0.000%	7/1/11	-	AAA

(c) County Pool: Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. State law and the San Mateo County's Investment Policy limit the County Pool investments in commercial paper to the rating of A1 or better by Standards & Poor's or P-1 or better by Moody's Investors Service. State law and the San Mateo County's Investment Policy also limit County Pool investments in corporate bonds to the rating of A or higher by both Standard & Poor's and Moody's Investors Service. No limits are placed on the U.S. government agency securities and U.S Treasuries. The County Investment Pool was rated AAAs/S1 by Standard and Poor's.

Standard & Poor's, Fitch Ratings and Moody's Investors Service are major rating agencies that issue opinions on the quality of securities, which investors and investment managers may consider when assessing risk.

(d) County Pool: Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the County Pool's investment in a single issuer of securities. For each authorized investment type, state law restricts the maximum percentages allowed in the portfolio and per issuer. See Note 2(b). As of June 30, 2011, the investment pool has more than five percent of its total investment with the following issuers: 13% in Federal Home Loan Bank, 12% in Federal Home Loan Mortgage Corporation and 10% in Federal National Mortgage Association. Remainder of investments has less than five percent of the total investment with one issuer.

(e) County Pool: Foreign Currency Risk

Foreign currency risk is the risk that changes in the exchange rates will adversely affect the fair value of an investment or deposit. The County investment policy does not include specific provisions to address foreign currency risk as it does not hold foreign securities.

(f) County Pool: Interest Rate Risk

Interest rate risk is the risk that changes in market interest rate will adversely affect the fair value of an investment. The County Pool manages its exposure to declines in fair value by limiting the weighted average maturity of its

HOUSING ENDOWMENT AND REGIONAL TRUST OF SAN MATEO COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

2. CASH AND CASH EQUIVALENTS (continued)

investment portfolio to three years or less in accordance with its investment policy. As of June 30, 2011, the County Pool had a weighted average maturity to 1.5 years and its floating rate securities were \$212 million. These securities are tied to the three-month London Interbank Offered Rate (LIBOR) index.

(g) Securities Lending Transactions

State Statutes and San Mateo County's Investment Policy permit the use of a securities lending program with its principal custodian bank. The investment policy allows the custodial bank (Custodian) to lend up to 20% of the portfolio within the guidelines of the investment policy. The custodial agreement authorizes the Custodian to loan securities in the County's Investment Pool under such terms and conditions as the County's Custodian deems advisable and to permit the loaned securities to be transferred into the name of the borrowers. The loaned securities represent securities on loan to brokers or dealers or other borrowers by the County's Investment Pool. The County receives interest from the borrower for the use of the loaned securities. If loaned securities are not returned by the borrower, the County's Custodian is responsible for replacement of the loaned securities with other securities of the same issuer, class, and denomination, or if such securities are not available on the open market, the County's Custodian is required to credit the County's account with the market value of such unreturned loaned securities. All securities loan agreements can be terminated on demand within a period specified in each agreement by either the County or the borrowers. The County stopped participating in securities lending activity in October 2010 and had no securities out on loan as of June 30, 2011.

(h) Deposits with Financial Institutions: Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that in the event of the failure of the counterparty to a transaction, an entity will not be able to recover the value of its investment or collateral securities that are in the possession of another party. As of June 30, 2011, \$57,793 (2010: \$478,099) of HEART's deposits with financial institutions were in excess of federal depository insurance limits.

3. RECEIVABLES

(a) Interest Receivable

The interest receivable balance reported in the governmental fund *balance sheets* at year-end of \$20,700 (2010: \$7,882) represents fourth quarter investment earnings due from the County Treasurer and interest collected subsequent to year end on loans outstanding with Developers.

The interest receivable balance reported in the government-wide *statements of net positions* at year-end of \$307,860 (2010: \$247,609) includes investment earnings noted above plus net \$287,160 in cumulative interest earned on loan receivables from developers.

(b) Other Receivable

Other receivable as of June 30, 2011 of \$1,316 consists of outstanding loan processing fees for loan services provided to homebuyers. Other receivable was zero in the prior year.

HOUSING ENDOWMENT AND REGIONAL TRUST OF SAN MATEO COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

3. RECEIVABLES (continued)

(c) Loans Receivable

Loans receivable as of June 30, 2011 and 2010 consist of the following:

	2011	2010
<p>In September 2006, HEART loaned \$1,730,000 of program funds to The Crossings Phase II, L.P. for the development of the 113-unit The Village at the Crossing project in San Bruno, CA, which will provide housing for very-low and extremely-low income households. The loan has a term of 55 years from the issuance of the Certificate of Occupancy and bears interest at a rate of 3% per annum. The Certificate of Occupancy was issued on January 10, 2008.</p>	\$ 1,730,000	\$ 1,730,000
<p>In June 2006, HEART signed a loan agreement with Hillcrest Senior Housing Corporation (HSHC) for \$510,000 to assist with construction financing of the 39-unit Hillcrest Gardens project in Daly City, CA, which will provide housing for very-low and extremely-low income seniors. The loan has a term of 55 years from the issuance of the Certificate of Occupancy and/or Notice of Completion for the development, whichever is earlier, and bears interest at a rate of 3% per annum. The Notice of Completion was issued on December 11, 2008.</p>	510,000	510,000
<p>In December 2007, HEART loaned \$750,000 of QuickStart Revolving Loan Funds, which was funded by the CalHFA HELP Program loan (see Note 7 below), to Trestle Glen Associates to assist with the development of a 119-unit rental housing project in Colma, CA, which will provide housing for very-low and extremely-low income households. The loan was paid off by the developer in the current fiscal year. Loan repayments from the developer were recorded as other financing sources in the <i>statements of revenues, expenditures, and changes in fund balance</i> on page 11.</p>	-	750,000
<p>In December 2007, HEART signed a loan agreement with Trestle Glen Associates for \$1,760,000 to assist with the development of a 119-unit rental housing project in Colma, CA, which will provide housing for very-low and extremely-low income households. The loan has a term of 55 years from the issuance of the Certificate of Occupancy and/or Notice of Completion for the development, whichever is later, and bears interest at a rate of 3% per annum. The Certificate of Occupancy was issued on December 30, 2009.</p>	1,760,000	1,760,000
<p>Sub-total carried forward</p>	4,000,000	4,750,000

**HOUSING ENDOWMENT AND REGIONAL TRUST OF SAN MATEO COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

3. RECEIVABLES (continued)

(c) Loan Receivable (continued)

	2011	2010
Sub-total carried forward	4,000,000	4,750,000
<p>In March 2008, HEART signed a loan agreement with National Church Residences of Pacifica, CA (NCRP) for \$500,000 to assist with the rehabilitation of a 100-unit rental housing development project in Pacifica, CA for very-low and extremely-low income seniors. Funds from the loan are disbursed to NCRP on a reimbursement basis for eligible project costs incurred. The term of the loan is 3 years beginning March 1, 2008 and the loan bears simple interest at a rate of 2% per annum. The term of the loan was extended by the Executive Director for two additional one year terms at the sole discretion of HEART from March 1, 2011 to February 28, 2013 and bears interest at a rate of 4% per annum during the extension period. No payment is required during the term of the loan and the entire principal balance plus all accrued interest is due and payable on February 28, 2013.</p>	500,000	500,000
<p>In February 2011, HEART signed a loan agreement with East Palo Alto Community Alliance and Neighborhood Development Organization (EPA CAN DO) for \$180,000, which was funded by the QuickStart Revolving Loan Funds to assist with the land acquisition and redevelopment of a single family house in East Palo Alto, CA, which will provide initial housing for a low income household and assist in redevelopment to a multi-family dwelling for low income households. The loan has a term of 3 years beginning February 1, 2011 and bears interest at a rate of 2% per annum. No payment is required during the term of the loan and the entire principal balance plus all accrued interest is due and payable on February 1, 2014. The term of the loan may be extended by one year at a rate of 4% simple interest per annum during the extension period.</p>	180,000	-
<p>In March 2011, HEART signed a loan agreement with Mid-Peninsula South City, L.P. for \$600,000, which was funded by the Genetech Foundation South Francisco Fund to assist with the development of 62-units of a 109-unit rental housing project in South San Francisco, CA, which will provide housing for low and very-low income households. The loan has a term of 55 years from the issuance of the Certificate of Occupancy, which evidences project completion and bears interest at a rate of 3% per annum commencing upon project completion.</p>	600,000	-
Sub-total carried forward	5,280,000	5,250,000

HOUSING ENDOWMENT AND REGIONAL TRUST OF SAN MATEO COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

3. RECEIVABLES (continued)

(c) Loan Receivable (continued)

	2011	2010
Sub-total carried forward	5,280,000	5,250,000

In March 2011, HEART signed a loan agreement with Mid-Peninsula South City II, L.P. for \$400,000, which was funded by the Genetech Foundation South Francisco Fund to assist with the development of 47-units of a 109-unit rental housing project in South San Francisco, CA, which will provide housing for low and very-low income households. The loan has a term of 55 years from the issuance of the Certificate of Occupancy, which evidences project completion and bears interest at a rate of 3% per annum commencing upon project completion.

	400,000	-
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In July 2010, HEART signed a loan agreement with Palo Alto Partners, L.L.C. (PAP) for \$200,000, which was funded by the Franklin Templeton Loan (see Note 7 below) to assist with the predevelopment costs of 60-units of a 120-unit rental housing project in San Mateo, CA for low and moderate-income households. Funds from the loan are disbursed to PAP on a reimbursement basis for eligible project costs incurred. The term of the loan is 3 years beginning July 26, 2010 and the loan bears simple interest at a rate of 2% per annum. No payment is required during the term of the loan. The entire principal balance plus all accrued interest is due and payable the earlier of: i) 30 days after any notice from creditor that letter of credit collateral will not be renewed or ii) July 31, 2013. During the current fiscal year, \$145,151 was disbursed to PAP.

	145,151	-
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Total Loans Receivable	\$ 5,825,151	\$ 5,250,000
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4. PREPAID EXPENSE

Prepaid expense as of June 30, 2011 of \$693 (2010: \$14,626) is comprised of amount paid to contractor for future services.

5. DUE FROM OTHER FUND

Due from other fund as of June 30, 2011 of \$14,241 is comprised of interest received on developer loan held with HEART that was deposited into a fund unrelated to HEART. Due from other fund was zero in the prior year.

6. ACCOUNTS PAYABLE

Accounts payable comprises of the following:

	2011	2010
Interest on long-term debt	\$ 5,000	\$ 5,000

HOUSING ENDOWMENT AND REGIONAL TRUST OF SAN MATEO COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

7. LONG-TERM DEBT

Loans Payable

On January 24, 2007, HEART entered into a loan agreement with Wells Fargo Community Development Corporation for \$1,000,000. The loan is used to capitalize a QuickStart Revolving Loan Fund that will provide short-term, flexible financing to eligible affordable housing developers for predevelopment, construction and rehabilitation of affordable housing or to individual homeowners in low and moderate income areas for the construction of a second unit to their home. The loan is interest only and bears a rate of 2% per annum. The remaining principal balance plus accrued interest is due January 30, 2013. The interest is payable quarterly beginning June 30, 2007. Interest paid on long-term debt during the fiscal year was \$20,000. At June 30, 2011 the outstanding loan amount was \$1,000,000.

On October 24, 2006, HEART entered into a loan agreement with the California Housing Financing Agency (CalHFA) for \$1,500,000 (HELP Loan). Per the loan agreement, HELP Loan funds are to be used exclusively for a revolving loan fund program that will assist with land acquisition and predevelopment costs to allow for the development of multi-family rental projects. Projects financed under the HELP Program are restricted to developments affordable to households earning at or below 60% of the area median income. With these funds and other sources, HEART created the "QuickStart Revolving Loan Fund."

Funds from the loan are disbursed to HEART on a request basis for eligible costs. The loan is interest only and bears a rate of 3% per annum. The principal balance plus accrued interest is due October 24, 2016. Interest is charged only on funds disbursed. In fiscal year 2008, HEART requested \$750,000 from CalHFA to fund the Trestle Glen Associates development noted in Note 3 (c) above. In fiscal year 2009, HEART requested the remaining \$750,000 from CalHFA to fund the Mid-Peninsula San Mateo Transit Associates, L.P. development, which was paid back to HEART in fiscal year 2010. Subsequent to year end the loan was paid in full to take advantage of discount on interest for early repayment. At June 30, 2011 the outstanding loan amount was \$1,500,000.

On February 14, 2011, HEART entered into a loan agreement with Franklin Templeton Bank & Trust (FTBT) for \$200,000. The loan is used to provide short-term financing to Palo Alto Partners, L.L.C. for the development noted in Note 3(c) above. The loan is collateralized with an Irrevocable Standby Letter of Credit issued by First Republic Bank (FRB) in the amount of \$212,000 dated November 2, 2010 as amended. The loan is interest only and bears a rate of 2% per annum. The principal balance plus accrued interest matures the earlier of: i) 45 days after any notice from FRB that the letter of credit will not be renewed or ii) July 31, 2013. Interest is charged only on funds disbursed. At June 30, 2011 the outstanding loan amount was \$200,000.

The total interest accrued on long-term liabilities as of June 30, 2011 was \$127,488.

Changes in long-term liabilities:

Activity for the year ended June 30, 2011 was as follows:

HOUSING ENDOWMENT AND REGIONAL TRUST OF SAN MATEO COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

7. LONG-TERM DEBT (continued)

	Beginning Balance	Additions	Reductions	Ending Balance
Loans Payable:				
Wells Fargo Loan	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000
CalHFA Loan	1,500,000	-	-	1,500,000
Franklin Templeton Loan	-	200,000	-	200,000
Total Loans Payable	2,500,000	200,000	-	2,700,000
Accrued Interest Payable	81,535	45,953	-	127,488
 Total Long-term Liabilities	 \$ 2,581,535	 \$ 245,953	 \$ -	 \$ 2,827,488

No amounts are due within one year.

8. REVENUES

(a) Operating Grants and Contributions

Operating grants and contributions consist of the following:

Member Agencies Dues

Member Agencies are billed annually for dues to cover administrative expenses.

Charges for Services

Charges for services are loan processing fees collected from home buyers upon close of escrow on each home loan.

Grants

In November 2007, HEART was awarded a grant from Genentech, Inc. in the amount of \$1,000,000 to benefit affordable housing in the City of South San Francisco. The grant period is from 2008 to 2012 and payable in five equal installments. In fiscal year 2008, HEART received the first \$200,000 installment and the remaining \$800,000 was received in fiscal year 2010. As of June 30, 2011, the entire grant was expended for purposes of the grant to fund loans to developers: Mid-Peninsula South, L.P. and Mid-Peninsula South II, L.P., for project development in South San Francisco. See Note 3(c) above.

Donors

Other operating grants and contributions include contributions from private donors.

(b) Investment Earnings

Investment earnings reported in the government fund *statements of revenues, expenditures, and changes in fund balance* comprise of quarterly interest received from the County Treasurer on investments made by HEART in the County Pool and interest collected from developers on cumulative interest receivable accrued. Interest is recorded in the year it is earned and is available to pay current liabilities

Investment earnings reported in the government-wide *statements of activities* includes earnings from the County investments noted above plus interest earned in the current year on loans made to developers.

HOUSING ENDOWMENT AND REGIONAL TRUST OF SAN MATEO COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

9. FUND BALANCES / NET POSITION

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which HEART is bound to honor constraints on the specific purpose for which amount in the fund can be spent. As of June 30, 2011, fund balance for the governmental fund consists of the following classifications:

- (a) *Restricted Fund Balance* – includes amounts that can be spent only for specific purposes stipulated by external resources providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- (b) *Committed Fund Balance* – includes amounts that can only be used for specific purposes determined by a formal action of HEART’s highest level decision-making authority, the Board of Directors. Commitments may be changed or lifted only by HEART taking the same formal action that imposed the constraint originally (i.e. resolution).
- (c) *Assigned Fund Balance* - comprises of amounts intended to be used by HEART for specific purposes that are neither restricted nor committed. *Intent* is expressed by (1) HEART’s Board of Directors or (2) a body (for example: a budget or finance committee) or official to which HEART’s Board of Directors has delegated the authority to assign amounts to be used for specific purposes.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, and assigned.

At fiscal year-end, fund balance reported on the *balance sheets* on page 10 includes:

	2011	2010
Restricted		
QuickStart Revolving Loan – housing developers (see Note 7)	\$ 325,174	\$ 505,217
Debt service – Loan Loss Reserve Account (see Note 1(b))	30,000	30,000
Home Buyer Assistance Loan Program – pledge account (see Note 1(b))	307,794	402,444
Grant – City of South San Francisco Housing (see Note 8(a))	-	1,000,000
	662,968	1,937,661
Committed		
Approved Loans to developers (Note 9)	163,636	200,000
Home Buyer Assistance Loan Program – working capital Account (see Note 1(b))	239,895	-
	403,531	200,000
Assigned	2,793,295	1,885,368
Total Fund Balance	\$ 3,859,794	\$ 4,023,029

The amount shown as restricted above is also reported as restricted net assets on the *statement of net positions* on page 8.

HOUSING ENDOWMENT AND REGIONAL TRUST OF SAN MATEO COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

10. COMMITMENTS

In May 2011, HEART's Board of Directors approved a loan for \$163,636 to East Palo Alto Community Alliance and Neighborhood Development Organization for a rental housing development project in East Palo Alto, CA for low income household. The loan agreement was executed subsequent to year end.

11. RISK MANAGEMENT

HEART is exposed to various risks of losses related to assets having a current or future benefit to HEART. HEART has insurance coverage provided by Philadelphia Insurance Companies. In addition, HEART has special excess liability insurance coverage provided as part of the County's insurance coverage. The existing insurance policies are current as of the issuance of this report. Under an agreement with the County, the Department of Housing (DOH) of San Mateo County provides fiscal and program services to HEART. Agents of the DOH are covered by the County's insurance provider. The County Counsel provides legal representation for any claims or litigation of HEART under a contract. For the years ended June 30, 2011 and 2010, the annual amount contracted with County Counsel for legal representation was \$10,000.

REQUIRED SUPPLEMENTARY INFORMATION

Housing Endowment and Regional Trust of San Mateo County
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
Governmental Fund
For the Year Ended June 30, 2011

	Budgeted Amount Original/Final	Actual Amount Budgetary Basis (Note 1)	Variance with Final Budget Positive (Negative)
Revenues			
Member Agency contributions	\$ 291,761	\$ 291,761	\$ -
Other contributions	25,000	50,000	25,000
Investment earnings	-	-	-
Service Fees	8,000	6,400	(1,600)
Total Revenues	324,761	348,161	23,400
Expenditures			
General management and administrative support	314,725	304,031	10,694
Legal services	10,000	10,000	-
Miscellaneous	-	-	-
Debt service:			
Interest	-	-	-
Total Expenditures	324,725	314,031	10,694
Excess of Revenues Over Expenditures	36	34,130	34,094
Other Financing Sources (Uses)			
Loan proceeds	-	-	-
Proceeds from developers	-	-	-
Loan funding	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Net Change in Fund Balance	\$ 36	34,130	\$ 34,094
Fund Balance - beginning		4,065,070	
Fund Balance - ending		\$ 4,099,200	

HOUSING ENDOWMENT AND REGIONAL TRUST OF SAN MATEO COUNTY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2011

1. BUDGETS, BUDGETARY PROCESS, AND ENCUMBRANCES

HEART uses two funding sources to manage operations: Administrative Funds and Program Funds. The Board adopts an annual operating budget for the administrative fund, which can be amended by the Board throughout the year. Program funds are not budgeted. Actual revenues and expenditures presented reflect activity in the administrative fund during the year. As discussed in Note 1(d) of the notes to the basic financial statements, the basis used to prepare the budget is the same as the basis used to reflect actual revenues and expenditures, except for unrealized gains and losses under GASB 31 and Program Funds' revenues or expenditures. The financial statements record unrealized gains and losses as required by Generally Accepted Accounting Principles (GAAP). Adjustments were made to certain budgeted accounts to reflect changes made in financial statement presentation.

HEART uses an encumbrance system in IFAS to assist in controlling expenditures. Purchase orders, contracts, and other commitments for the expenditures of monies are recorded under this system in order to reserve applicable appropriations. Any encumbrances outstanding at year-end are recorded as reservations of fund balance as they do not constitute expenditures or liabilities.

The actual net change in fund balance under the budgetary basis on page 25 is reconciled to the change in fund balance under GAAP on page 11 as follows:

Explanation of difference between budgetary basis and GAAP basis:

Net Change in Fund Balance – budgetary basis	\$	34,130
Net Change in Program Funds not budgeted (see <i>status of funds</i> , page 27)		(193,051)
Net unrealized loss on cash in County Investment Pool under GASB 31		(4,314)
		(4,314)
Change in Fund Balance – GAAP basis	\$	(163,235)

SUPPLEMENTARY INFORMATION

Housing Endowment and Regional Trust of San Mateo County
Status of Funds
For the Year Ended June 30, 2011

	Program Funds	Administrative Funds	Total
Revenues			
Member Agency contributions	\$ -	\$ 291,761	\$ 291,761
Donor contributions	72,967	50,000	122,967
Charges for Services	-	6,400	6,400
Investment earnings	129,752	-	129,752
Total Revenues	<u>202,719</u>	<u>348,161</u>	<u>550,880</u>
Expenditures			
General management and administrative support	-	304,031	304,031
Legal services	-	10,000	10,000
Miscellaneous	619	-	619
Debt service - interest	20,000	-	20,000
Total Expenditures	<u>20,619</u>	<u>314,031</u>	<u>334,650</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	182,100	34,130	216,230
Other Financing Sources (Uses)			
Loan proceeds	200,000	-	200,000
Proceeds from developers	750,000	-	750,000
Loan funding	(1,325,151)	-	(1,325,151)
Total Other Financing Sources (Uses)	<u>(375,151)</u>	<u>-</u>	<u>(375,151)</u>
Net Change in Fund Balance	(193,051)	34,130	(158,921)
Fund Balance - beginning	<u>4,035,872</u>	<u>11,946</u>	<u>4,047,818</u>
Fund Balance - ending	<u>\$ 3,842,821</u>	<u>\$ 46,076</u>	<u>\$ 3,888,897</u>

Notes:

- (1) All income received from investment earnings are categorized to Program Funds
- (2) The above schedule does not include adjustments made for GASB No. 31 as required by generally accepted accounting principles.