

**CONARD HOUSE, INC.
AND RELATED ORGANIZATIONS**

**CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
(INCLUDING SINGLE AUDIT REPORTS)**

FOR THE YEAR ENDED JUNE 30, 2009

CONARD HOUSE, INC. AND RELATED ORGANIZATIONS

June 30, 2009

CONTENTS

	<u>Page</u>
Independent Auditors' Combined Report on the Consolidated Financial Statements and Supplemental Information	1 - 2
Financial Statements	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Support and Revenue and Expenses by Program	5
Consolidated Statement of Functional Expenses	6
Consolidated Statement of Support and Revenue and Expenses – Supportive Housing Program	7
Consolidated Statement of Functional Expenses – Supportive Housing Program	8
Consolidated Statement of Cash Flows	9
Notes to Consolidated Financial Statements	10 - 21
Supplemental Information	
Consolidating Schedule of Financial Position	22
Consolidating Schedule of Activities	23
Consolidating Schedule of Functional Expenses	24
Schedule of Expenditures of Federal Awards	25
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	26 - 27
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	28 - 29
Schedule of Findings and Questioned Costs	30 - 31
Summary Schedule of Prior Audit Findings	32



Le, Ho & Company, LLP
Certified Public Accountants

402 Westlake Center, Daly City, CA 94015
Tel: 650-758-1222 Fax: 650-758-1221

**INDEPENDENT AUDITORS' COMBINED REPORT ON THE CONSOLIDATED
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION**

To the Board of Directors
Conard House, Inc. and Related Organizations
San Francisco, California

We have audited the accompanying consolidated statement of financial position of Conard House, Inc. and related organizations (California nonprofit organizations) as of June 30, 2009, and the related consolidated statements of activities, support and revenue and expenses by program, functional expenses, support and revenue and expenses – supportive housing program, functional expenses – supportive housing program, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the management of Conard House, Inc. and related organizations. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized information has been derived from Conard House, Inc. and related organizations' June 30, 2008 consolidated financial statements and, in our report dated January 13, 2009, we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Conard House, Inc. and related organizations as of June 30, 2009, and the changes in their net assets and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 29, 2009 on our consideration of Conard House, Inc. and related organizations' internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts and grants agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Conard House, Inc. and related organizations taken as a whole. The accompanying supplemental schedules shown on pages 22 through 24, and the schedule of expenditures of federal awards shown on page 25 as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Le, Ho & Company, LLP

Daly City, California
December 29, 2009

CONARD HOUSE, INC. AND RELATED ORGANIZATIONS
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2009

With Summarized Financial Information at June 30, 2008

	2009	<i>Total 2008 Summarized Information</i>
	<u>Assets</u>	
Current Assets		
Cash and cash equivalents	\$ 232,998	\$ 337,637
Contracts, fees and rent receivable, net of allowance for doubtful accounts of \$43,971	764,609	252,089
Other receivables	50,934	6,889
Prepaid expenses	132,423	75,062
Total Current Assets	<u>1,180,964</u>	<u>671,677</u>
Property and equipment, net	<u>17,284,912</u>	<u>17,921,294</u>
Other Assets		
Cash - restricted	1,849,136	1,548,574
Deposits	36,753	33,895
Security deposits	59,185	58,468
Loan fees, net of accumulated amortization of \$1,098	1,705	1,798
Clients' funds - contra	975,400	781,679
Total Other Assets	<u>2,922,179</u>	<u>2,424,414</u>
Total Assets	<u>\$ 21,388,055</u>	<u>\$ 21,017,385</u>
	<u>Liabilities and Net Assets</u>	
Current Liabilities		
Accounts payable	\$ 423,333	\$ 361,044
Property and equipment payable	-	19,625
Deferred revenue	5,139	6,418
Accrued interest and expenses	364,586	319,173
Equipment loan payable - current portion	7,399	7,754
Long-term debts - current portion	258,852	192,673
Bank line of credit	-	502,982
Total Current Liabilities	<u>1,059,309</u>	<u>1,409,669</u>
Bank line of credit	1,045,000	-
Long-term debts, net of accumulated amortization of \$957,351	15,578,731	15,696,471
Equipment loan payable	-	7,399
Security deposits	54,239	53,364
Tenant move out reserve fund liabilities	63,139	49,939
Deferred interest	1,416,719	1,283,970
Clients' funds - contra	975,400	781,679
Total Liabilities	<u>20,192,537</u>	<u>19,282,491</u>
Minority Interest in Partnership	<u>1,060,844</u>	<u>1,139,828</u>
Net Assets		
Unrestricted	(3,852,941)	(3,460,136)
Temporarily restricted	3,987,615	4,055,202
Total Net Assets	<u>134,674</u>	<u>595,066</u>
Total Liabilities and Net assets	<u>\$ 21,388,055</u>	<u>\$ 21,017,385</u>

See accompanying notes to consolidated financial statements.

CONARD HOUSE, INC. AND RELATED ORGANIZATIONS
CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2009

With Summarized Financial Information for the Year Ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<i>Total 2008 Summarized Information</i>
Support and Revenue				
Governmental support:				
Community Mental Health Services	\$ 6,049,806	\$ -	\$ 6,049,806	\$ 5,814,889
Community Services - DHS	2,195,796	-	2,195,796	2,324,564
Rental assistance - Shelter Plus Care & Section 8	921,083	-	921,083	867,313
Money management services	313,486	-	313,486	222,552
Contributions	11,049	-	11,049	26,672
Foundation grants	119,500	-	119,500	40,000
Rental income	1,758,079	-	1,758,079	1,816,860
Client fees	81,035	-	81,035	88,923
Developer fee	-	-	-	8,838
Investment return	25,273	-	25,273	34,498
Debt forgiveness	76,027	-	76,027	76,027
Other income	36,387	-	36,387	44,916
Net asset released from restrictions				
Satisfaction of donors' restrictions	67,587	(67,587)	-	-
Total Support and Revenue	<u>11,655,108</u>	<u>(67,587)</u>	<u>11,587,521</u>	<u>11,366,052</u>
Expenses				
Program:				
Jackson Street	1,069,179	-	1,069,179	1,035,553
DPH Supportive Housing	7,546,115	-	7,546,115	7,497,983
DHS Supportive Housing	1,411,272	-	1,411,272	1,369,774
Community services	1,898,496	-	1,898,496	1,829,545
Supportive employment services	292,496	-	292,496	315,237
Lyric Housing	735,908	-	735,908	713,019
Inter-program charges	(1,114,456)	-	(1,114,456)	(1,176,792)
Total Program	11,839,010	-	11,839,010	11,584,319
Management and general	188,968	-	188,968	137,691
Fundraising	98,919	-	98,919	96,308
Total Expenses	<u>12,126,897</u>	<u>-</u>	<u>12,126,897</u>	<u>11,818,318</u>
Change in Net Assets, before minority interest	(471,789)	(67,587)	(539,376)	(452,266)
Minority interest	78,984	-	78,984	53,647
Change in Net Assets	(392,805)	(67,587)	(460,392)	(398,619)
Net Assets, beginning of year	(3,460,136)	4,055,202	595,066	993,685
Net Assets, end of year	<u>\$ (3,852,941)</u>	<u>\$ 3,987,615</u>	<u>\$ 134,674</u>	<u>\$ 595,066</u>

See accompanying notes to consolidated financial statements.

CONARD HOUSE, INC. AND RELATED ORGANIZATIONS
CONSOLIDATED STATEMENT OF SUPPORT AND REVENUE AND EXPENSES BY PROGRAM
For the Year Ended June 30, 2009

	Program							Management and General					Fund-Raising	TOTAL	
	Jackson Street	DPH Supportive Housing	DHS Supportive Housing	Community Services	Supportive Employment Services	Lyric Housing	Inter-Program Charges	Total	Administration	Non-Contract	Project Pre-Development	Inter-Program Charges			Total
Support and Revenue															
Governmental support:															
Community Mental Health Services	\$ 916,230	\$4,678,271	\$ -	\$ 357,640	\$ 97,665	\$ -	\$ -	\$ 6,049,806	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,049,806
Community Services - DHS	-	-	976,342	1,219,454	-	-	-	2,195,796	-	-	-	-	-	-	2,195,796
Rental assistance - Shelter Plus Care & Section 8	-	509,228	-	-	-	411,855	-	921,083	-	-	-	-	-	-	921,083
DPH subsidy	-	446,053	-	-	-	90,788	(536,841)	-	-	-	-	-	-	-	-
Money management services	-	-	-	313,486	-	-	-	313,486	-	-	-	-	-	-	313,486
Contributions	-	163	-	-	-	-	-	163	-	10,886	-	-	10,886	-	11,049
Foundation grants	-	3,050	1,950	-	-	-	-	5,000	-	109,500	-	-	109,500	5,000	119,500
Rental income	72,000	1,389,848	364,803	-	-	151,690	(220,262)	1,758,079	-	-	-	-	-	-	1,758,079
Client fees	60,835	20,200	-	-	-	-	-	81,035	-	-	-	-	-	-	81,035
Janitorial and messenger revenue	-	-	-	-	251,155	-	(251,155)	-	-	-	-	-	-	-	-
Investment return	-	17,552	-	-	-	583	-	18,135	-	7,138	-	-	7,138	-	25,273
Debt forgiveness	-	76,027	-	-	-	-	-	76,027	-	-	-	-	-	-	76,027
Income from Lyric Housing Associates	-	(85)	-	-	-	-	85	-	-	-	-	-	-	-	-
Management fees	-	14,810	-	-	-	-	(14,810)	-	-	-	91,388	(91,388)	-	-	
Other income	60	9,450	243	-	-	1,923	-	11,676	-	4,723	19,988	-	24,711	-	36,387
Total Support and Revenue	<u>1,049,125</u>	<u>7,164,567</u>	<u>1,343,338</u>	<u>1,890,580</u>	<u>348,820</u>	<u>656,839</u>	<u>(1,022,983)</u>	<u>11,430,286</u>	<u>-</u>	<u>132,247</u>	<u>111,376</u>	<u>(91,388)</u>	<u>152,235</u>	<u>5,000</u>	<u>11,587,521</u>
Expenses *	<u>1,069,179</u>	<u>7,546,115</u>	<u>1,411,272</u>	<u>1,898,496</u>	<u>292,496</u>	<u>735,908</u>	<u>(1,114,456)</u>	<u>11,839,010</u>	<u>(1,413)</u>	<u>77,208</u>	<u>113,173</u>	<u>-</u>	<u>188,968</u>	<u>98,919</u>	<u>12,126,897</u>
Change in Net Assets before Minority Interest	<u>\$ (20,054)</u>	<u>\$ (381,548)</u>	<u>\$ (67,934)</u>	<u>\$ (7,916)</u>	<u>\$ 56,324</u>	<u>\$ (79,069)</u>	<u>\$ 91,473</u>	<u>\$ (408,724)</u>	<u>\$ 1,413</u>	<u>\$ 55,039</u>	<u>\$ (1,797)</u>	<u>\$ (91,388)</u>	<u>\$ (36,733)</u>	<u>\$ (93,919)</u>	<u>\$ (539,376)</u>

* See Consolidated Statement of Functional Expenses on page 6.

See accompanying notes to consolidated financial statements.

CONARD HOUSE, INC. AND RELATED ORGANIZATIONS
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2009

	Program							Management and General							
	Jackson Street	DPH Supportive Housing	DHS Supportive Housing	Community Services	Supportive Employment Services	Lyric Housing	Inter-Program Charges	Total	Adminis-tration	Non-Contract	Project Pre-Development	Inter-Program Charges	Total	Fund-Raising	TOTAL
Expenses															
Salaries	\$ 518,061	\$ 2,889,466	\$ 378,368	\$ 1,061,535	\$ 202,406	\$ 189,213	\$ -	\$ 5,239,049	\$ 544,974	\$ 20,800	\$ 90,393	\$ -	\$ 656,167	\$ -	\$ 5,895,216
Payroll taxes and employee benefits	160,170	772,375	105,874	281,895	50,368	56,670	-	1,427,352	135,016	10,439	20,671	-	166,126	-	1,593,478
Consultation	4,020	26,128	706	1,983	440	-	-	33,277	29,115	-	-	-	29,115	74,168	136,560
Legal and accounting fees	6,265	74,985	27,108	4,336	-	28,754	-	141,448	66,826	-	-	-	66,826	-	208,274
Management fee	4,320	114,202	-	-	-	39,252	(106,198)	51,576	-	-	-	-	-	-	51,576
Insurance	15,828	124,212	15,060	17,457	258	43,447	-	216,262	12,888	-	-	-	12,888	-	229,150
Rent	54,752	527,463	271,876	96,438	5,381	10,616	(220,262)	746,264	26,904	-	-	-	26,904	-	773,168
Utilities	14,186	223,222	74,300	13,403	2,424	72,318	-	399,853	12,075	-	-	-	12,075	-	411,928
Telephone	8,439	61,034	8,192	25,705	4,283	511	-	108,164	7,808	-	-	-	7,808	190	116,162
Maintenance and repairs	69,066	616,308	292,454	34,068	10,353	134,506	(251,155)	905,600	12,264	1,104	43	-	13,411	-	919,011
Furniture replacement	10,066	49,541	28,300	12,091	-	-	-	99,998	6,627	-	-	-	6,627	-	106,625
Security	-	57,789	2,456	3,280	-	-	-	63,525	1	-	-	-	1	-	63,526
Equipment rental	4,320	31,294	3,934	16,732	696	-	-	56,976	3,502	-	-	-	3,502	-	60,478
Office expense and supplies	13,118	64,682	22,076	37,805	4,308	8,065	-	150,054	37,601	1,039	687	-	39,327	-	189,381
DPH subsidy	-	536,841	-	-	-	-	(536,841)	-	-	-	-	-	-	-	-
Postage and courier service	-	658	88	2,298	-	-	-	3,044	1,030	-	-	-	1,030	-	4,074
Travel and training	6,671	29,310	9,036	4,794	643	1,403	-	51,857	10,372	157	1,345	-	11,874	-	63,731
Client services	49,271	56,201	7,501	69,390	-	-	-	182,363	1	-	-	-	1	-	182,364
Depreciation and amortization	18,974	548,167	-	-	-	138,229	-	705,370	53,463	-	-	-	53,463	-	758,833
Interest	59	151,561	-	-	-	-	-	151,620	-	21,486	-	-	21,486	-	173,106
Bad debts	-	39,553	-	-	-	6,576	-	46,129	-	-	-	-	-	-	46,129
Miscellaneous	3,767	40,628	12,060	5,777	261	6,348	-	68,841	37,431	22,183	34	-	59,648	15,638	144,127
	961,353	7,035,620	1,259,389	1,688,987	281,821	735,908	(1,114,456)	10,848,622	997,898	77,208	113,173	-	1,188,279	89,996	12,126,897
Administrative costs allocation	107,826	510,495	151,883	209,509	10,675	-	-	990,388	(999,311)	-	-	-	(999,311)	8,923	-
Total Expenses	\$ 1,069,179	\$ 7,546,115	\$ 1,411,272	\$ 1,898,496	\$ 292,496	\$ 735,908	\$ (1,114,456)	\$ 11,839,010	\$ (1,413)	\$ 77,208	\$ 113,173	\$ -	\$ 188,968	\$ 98,919	\$ 12,126,897

See accompanying notes to consolidated financial statements.

CONARD HOUSE, INC. AND RELATED ORGANIZATIONS
CONSOLIDATED STATEMENT OF SUPPORT AND REVENUE AND EXPENSES -
SUPPORTIVE HOUSING PROGRAM **
For the Year Ended June 30, 2009

	DPH Supportive Housing Program										DHS Supportive Housing Program	
	Aarti	Jordan	El Dorado	Lyric	Midori	Washburn	Coop	Plaza	Other	Subtotal	McAllister	Total
Support and Revenue												
Governmental support:												
Community Mental Health Services	\$ 129,634	\$ 312,893	\$ 676,556	\$ 631,222	\$ 711,953	\$ 663,928	\$ 887,849	\$ 603,572	60,664	\$ 4,678,271	\$ -	\$ 4,678,271
Community Services - DHS	-	-	-	-	-	-	-	-	-	-	976,342	976,342
Rental Assistance - Shelter + Care & Sec 8	-	432,345	43,219	-	33,664	-	-	-	-	509,228	-	509,228
DPH subsidy	66,693	-	25,093	-	-	59,615	294,652	-	-	446,053	-	446,053
Contributions	-	-	-	163	-	-	-	-	-	163	-	163
Foundation grants	-	-	1,300	-	1,750	-	-	-	-	3,050	1,950	5,000
Rental income	44,266	192,316	341,675	-	383,646	81,293	346,652	-	-	1,389,848	364,803	1,754,651
Client fees	-	-	-	-	-	20,200	-	-	-	20,200	-	20,200
Investment return	-	9,030	3,893	-	4,500	-	129	-	-	17,552	-	17,552
Debt forgiveness	-	-	-	-	48,087	27,940	-	-	-	76,027	-	76,027
Income from Lyric Housing Associates	-	-	-	(85)	-	-	-	-	-	(85)	-	(85)
Management fees	-	-	(190)	15,000	-	-	-	-	-	14,810	-	14,810
Other income	-	8,323	599	-	36	(289)	781	-	-	9,450	243	9,693
Total Support and Revenue	240,593	954,907	1,092,145	646,300	1,183,636	852,687	1,530,063	603,572	60,664	7,164,567	1,343,338	8,507,905
Expenses *	243,588	1,079,225	1,178,022	624,773	1,344,398	864,463	1,562,531	590,419	58,696	7,546,115	1,411,272	8,957,387
Change in Net Assets before Minority Interest	\$ (2,995)	\$ (124,318)	\$ (85,877)	\$ 21,527	\$ (160,762)	\$ (11,776)	\$ (32,468)	\$ 13,153	\$ 1,968	\$ (381,548)	\$ (67,934)	\$ (449,482)

* See Consolidated Statement of Functional Expenses - Supportive Housing Program on page 8.

** The Supportive Housing Program combines support services and property management, all before inter-program charges.

CONARD HOUSE, INC. AND RELATED ORGANIZATIONS
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES -
SUPPORTIVE HOUSING PROGRAM **
For the Year Ended June 30, 2009

Expenses	DPH Supportive Housing Program									DHS Supportive Housing Program		
	Aarti	Jordan	El Dorado	Lyric	Midori	Washburn	Coop	Plaza	Other	Subtotal	McAllister	Total
Salaries	\$ 66,064	\$ 339,172	\$ 464,336	\$ 319,682	\$ 542,936	\$ 344,562	\$ 403,132	\$ 368,688	\$ 40,894	\$ 2,889,466	\$ 378,368	\$ 3,267,834
Payroll taxes and employee benefits	758	99,638	120,525	86,066	132,671	96,864	123,711	100,706	11,436	772,375	105,874	878,249
Consultation	2,090	2,405	6,096	2,406	5,913	2,406	2,406	2,406	-	26,128	706	26,834
Legal and accounting fees	1,433	32,019	8,333	3,775	13,217	7,310	5,899	2,999	-	74,985	27,108	102,093
Management fee	4,320	27,324	24,256	-	29,082	6,061	23,159	-	-	114,202	-	114,202
Insurance	2,623	31,192	24,142	4,630	27,199	11,025	18,984	4,417	-	124,212	15,060	139,272
Rent	14,170	15,485	37,522	3,595	30,491	26,118	396,240	3,842	-	527,463	271,876	799,339
Utilities	6,489	73,877	34,172	1,599	66,527	23,383	15,459	1,716	-	223,222	74,300	297,522
Telephone	4,110	12,230	6,823	8,906	10,134	5,580	5,436	7,815	-	61,034	8,192	69,226
Maintenance and repairs	54,142	153,443	151,089	2,006	114,472	83,353	55,741	2,062	-	616,308	292,454	908,762
Furniture replacement	-	501	11,084	5,827	8,180	10,023	12,174	1,752	-	49,541	28,300	77,841
Security	600	-	22,650	-	-	34,539	-	-	-	57,789	2,456	60,245
Equipment rental	1,213	3,826	4,223	4,602	4,493	4,010	4,630	4,297	-	31,294	3,934	35,228
Office expense and supplies	736	16,647	11,033	6,586	6,858	6,851	7,380	8,591	-	64,682	22,076	86,758
DPH subsidy	66,693	-	25,094	90,788	-	59,615	294,651	-	-	536,841	-	536,841
Postage and courier service	-	94	94	94	94	94	94	94	-	658	88	746
Travel and training	582	4,780	5,620	1,698	3,216	2,604	7,937	2,830	43	29,310	9,036	38,346
Client services	491	2,877	16,782	7,597	7,992	6,747	5,586	8,129	-	56,201	7,501	63,702
Depreciation and amortization	-	171,948	78,883	1,613	193,145	51,595	50,983	-	-	548,167	-	548,167
Interest	-	37,677	42,927	177	57,927	177	12,676	-	-	151,561	-	151,561
Bad debts	-	6,163	5,565	5,565	5,565	5,565	5,565	5,565	-	39,553	-	39,553
Miscellaneous	(1,135)	15,775	5,510	1,303	9,191	4,054	4,682	1,214	34	40,628	12,060	52,688
	<u>225,379</u>	<u>1,047,073</u>	<u>1,106,759</u>	<u>558,515</u>	<u>1,269,303</u>	<u>792,536</u>	<u>1,456,525</u>	<u>527,123</u>	<u>52,407</u>	<u>7,035,620</u>	<u>1,259,389</u>	<u>8,295,009</u>
Administrative costs allocation	18,209	32,152	71,263	66,258	75,095	71,927	106,006	63,296	6,289	510,495	151,883	662,378
Total Expenses	\$ 243,588	\$ 1,079,225	\$ 1,178,022	\$ 624,773	\$ 1,344,398	\$ 864,463	\$ 1,562,531	\$ 590,419	\$ 58,696	\$ 7,546,115	\$ 1,411,272	\$ 8,957,387

** The Supportive Housing Program combines support services and property management, all before inter-program charges.

See accompanying notes to consolidated financial statements.

CONARD HOUSE, INC. AND RELATED ORGANIZATIONS**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the Year Ended June 30, 2009

Cash Flows from Operating Activities

Change in net assets, before minority interest	\$ (539,376)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	758,833
Debt forgiveness	(76,027)
(Increase) decrease in:	
Contracts, fees and rent receivable	(512,520)
Other receivables	(44,045)
Prepaid expenses	(57,361)
Deposits	(2,858)
Security deposits	(717)
Increase (decrease) in:	
Accounts payable	62,289
Deferred revenue	(1,279)
Accrued interest and expenses	45,413
Security deposits	875
Tenant move out reserve fund liabilities	13,200
Deferred interest	132,749
Net Cash Used in Operating Activities	<u>(220,824)</u>

Cash Flows from Investing Activities

Payments for property and equipment	(141,983)
Net increase in restricted cash accounts	<u>(300,562)</u>
Net Cash Used in Investing Activities	<u>(442,545)</u>

Cash Flows from Financing Activities

Proceeds from mortgage notes payable	28,999
Net borrowings on bank line of credit	542,018
Principal payments on equipment loan	(7,754)
Principal payments on mortgage notes payable	<u>(4,533)</u>
Net Cash Provided by Financing Activities	<u>558,730</u>

Net Decrease in Cash and Cash Equivalents (104,639)**Cash and Cash Equivalents, beginning of year** 337,637**Cash and Cash Equivalents, end of year** \$ 232,998**Supplemental Disclosures of Cash Flow Information**

Cash paid during the year for interest	<u>\$ 40,357</u>
--	------------------

See accompanying notes to consolidated financial statements.

CONARD HOUSE, INC. AND RELATED ORGANIZATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009

(1) ORGANIZATION

Organization – Conard House, Inc. and related organizations (collectively, the Agency) consist of nonprofit organizations incorporated in California, and one California limited partnership. The related nonprofit corporations (collectively, the Housing Corporations) are: Conard Housing Development Corporation (CHDC), owning Jackson Street, 26th Street and McAllister Street properties; El Dorado Housing Corporation, owning The El Dorado (a residential hotel); Midori Housing Corporation, owning The Midori (a residential hotel); Washburn Housing Corporation, owning The Washburn Residence (a residential hotel); Jordan Housing Corporation, owning Jordan Apartments (a studio apartment building); and Lyric Housing Corporation, managing general partner of Lyric Housing Associates (LHA), which is a California limited partnership owning The Lyric (a residential housing complex). Each corporation has a separate but identical board of directors. All the directors of the Housing Corporations are also directors of Conard House, Inc. (Conard House). Conard House provides management, financial, accounting and other services to each of the Housing Corporations. All properties of the Housing Corporations are located in San Francisco, California.

Nature of Activities – The Agency provides supportive services to economically, socially or otherwise disadvantaged adults with mental illness living in San Francisco. The services include mental health counseling services and social rehabilitation, supportive housing, case management, money management, and supportive employment, job placement and job retention services. The Agency receives a majority of its funding from the City and County of San Francisco (CCSF) through the Department of Public Health (DPH) - Community Behavioral Health Services (CBHS) and Housing and Urban Health (HUH) divisions and the Human Services Agency - Department of Human Services (DHS) and Department of Aging and Adult Services (DAAS). A significant reduction in the level of this support, if this were to occur, would have an effect on the Agency's programs and activities. The Agency's programs are as follows:

Jackson Street Residential Program: This program provides residential treatment services in a licensed 16-bed Jackson Street facility for adults with serious and persistent mental illness for up to 90 days of stay.

DPH Supportive Housing Program: This program provides long-term and transitional supportive housing for adults. Services include mental health outpatient services, case management, money management, and other supportive services at the following San Francisco locations: The El Dorado, The Washburn Residence and the Plaza Apartments located in the South of Market Area; The Lyric, The Midori and the Jordan Apartments located in the Tenderloin District. The Washburn Residence offers 24-months transitional housing while all others offer long-term housing. The DPH supportive housing program also includes approximately 17 apartments which provide supported independent living with mental health outpatient services in cooperative (shared) households to groups of four to six adults in its leased apartments and its owned facilities at 26th Street and McAllister Street.

DHS Supportive Housing Program: This program provides housing and supportive services for homeless individuals under CCSF's "Care not Cash" program at the McAllister Hotel, located in San Francisco Tenderloin District. The McAllister Hotel operates under a five-year master lease effective May 2004 and the lease was extended for an additional 5 years starting May 2009.

CONARD HOUSE, INC. AND RELATED ORGANIZATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009

Conard House Community Services (CHCS) Program: This program provides case management and money management to adult clients at four locations. Length of service is on an as-needed basis. CHCS-North is located in the Tenderloin District. CHCS-South is adjacent to the El Dorado Hotel located in the South of Market Area. CHCS-SOMA is located in the South of Market Clinic. CHCS-Market is located in the Mid-Market Area. Money management services are also provided to other organizations for a contract fee.

Conard House Supportive Employment Services Program: This program provides vocational counseling, job placement in both paid and volunteer positions throughout the community, and job retention services to adult mental health clients. In-house part-time employment opportunities include janitorial, desk clerk and courier services. Clients are encouraged to apply for any regular Conard House positions. The program provides a Desk Clerk Training Program in conjunction with the Supportive Housing Employment Collaborative. The program refers clients to a variety of external vocational training opportunities.

Lyric Housing Program: This program provides low-income housing at The Lyric, which is a 58-unit residential housing complex located in San Francisco. The project participates in the low-income housing tax credit program under Section 42 of the Internal Revenue Code. The project is regulated under the terms of a regulatory agreement with the California Tax Credit Allocation Committee and various loan agreements regarding rent rate changes, operating methods and other matters.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting – The accompanying consolidated financial statements are presented using the accrual method of accounting.

Principles of Consolidation – The consolidated financial statements include the accounts of Conard House, Inc., the Housing Corporations, and Lyric Housing Associates. All significant inter-company accounts and transactions have been eliminated in consolidation.

Minority Interest – Minority interest is the unrelated limited partner's share of the income/loss and the equity in Lyric Housing Associates.

Financial Statement Presentation – Information regarding the financial position and activities is classified according to the applicable classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Furthermore, expenses are classified into program service expenses and support expenses. Support expenses include management and general administrative expenses, and fundraising expenses.

The financial statements include certain prior-year summarized information in total but not by net asset class. Such information does not include sufficient details to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with Conard House, Inc. and related organizations' financial statements for the year ended June 30, 2008, from which the summarized information was derived.

CONARD HOUSE, INC. AND RELATED ORGANIZATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – Cash and cash equivalents are composed of monies in checking account, certificate of deposit and money funds, which are highly liquid.

Investment – Investments in equity securities with readily determinable fair values and all investments in debt securities are reported in the statement of financial position at fair value with realized and unrealized gains and losses included in the statement of activities. Gains and losses are reflected as increases or decreases in the unrestricted class of net assets unless the donor or relevant laws place temporary or permanent restrictions on the gains and losses.

Lyric Housing Corporation's investment interest in LHA limited partnership is recorded using the equity method under which the investment balance is adjusted for its share of the partnership's profits or losses and distributions. The investment income and equity investment in LHA is eliminated upon consolidation.

Accounts Receivable – The allowance for uncollectible account is based on management's evaluation of outstanding receivables.

Property and Equipment – Purchased property and equipment are stated at cost. The cost associated with the development and construction of real properties is capitalized. The cost of maintenance and repairs is expensed as incurred while significant renewals and improvements are capitalized. The threshold for capitalization of property and equipment is \$5,000 for the nonprofit corporations, and \$1,500 for the limited partnership. Donated assets are recorded at fair market value at the date of receipt. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, donated fixed assets are recorded as unrestricted support. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets ranging from 3 to 40 years. Leasehold improvements are amortized over the terms of the leases.

According to the CBHS grant agreement, the title for assets purchased with CBHS funds remains with CBHS. The CBHS funded assets are recorded as assets by the Agency because historically, CBHS has never requested a reversion of these assets while the Agency has continuing usage.

Debt and Interest Subject to Forgiveness – The Agency has received certain mortgage loans that are forgivable at the end of the loan term in accordance with the loan agreements. For accounting purposes, the Agency recognizes the debt forgiveness over the term of the loan using the straight-line method.

Certain loans also bear no interest or bear interest at stated rates although the interest is forgivable at the end of the loan term. The Agency does not impute or record interest expense on these loans.

Amortization – Loan fees and costs are amortized over the term of the loans using the straight-

CONARD HOUSE, INC. AND RELATED ORGANIZATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009

line method. Tax credit allocation fees have been amortized over the 10-year tax credit period.

Donated Services – The Agency receives various volunteer services throughout the year. No amount has been recognized in the consolidated statement of activities because the criteria for recognition have not been met.

Contributions – Unconditional contributions are recognized as support at the time of receipt and are classified as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. Temporarily restricted support is released to unrestricted support when the restriction is satisfied.

Allocation of Administrative Costs – Administrative costs are allocated to the various programs based on the indirect expenses allowed in the contracts with the funding agencies.

Income Taxes – The Agency is comprised of nonprofit organizations that are exempt from Federal income and California franchise taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code, respectively. Accordingly, there is no provision for income taxes. The limited partnership is not subject to income tax (except for the California limited partnership fee of \$800) since taxable income or loss from the partnership passes through to, and is reportable by, the partners individually.

Subsequent Events – Subsequent events have been evaluated through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

(3) MINORITY INTEREST IN LYRIC HOUSING ASSOCIATES

Lyric Housing Corporation is the managing general partner of LHA with 0.1% ownership interest, and 1994 Oakland Regional Housing Partnership Associates is the limited partner with 99.9% ownership interest. For the financial statement purposes, the limited partner's interest in the partnership is called minority interest.

LHA operates on a calendar year basis. Accordingly, the activities of the partnership included in these consolidated financial statements are the sum of the partnership's activities from July 1 to December 31, 2008 and from January 1 to June 30, 2009. For the fiscal year ended June 30, 2009, \$78,984 of the partnership loss was allocated to the limited partner. As of June 30, 2009, the limited partner's share of the partnership's equity balance was \$1,060,844.

(4) RESTRICTED CASH

The Agency is required by certain loan and regulatory agreements to maintain separate replacement reserves, operating reserves, debt service reserves and other reserve accounts, withdrawal from which normally requires prior approval from the lenders or regulatory agencies. As of June 30, 2009, total reserve account balance was \$1,500,662.

CONARD HOUSE, INC. AND RELATED ORGANIZATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009

In addition, as the project sponsor for The Lyric, Conard House received from the project \$200,000 developer fee, which is maintained in a separate interest-bearing account designated as an operating deficit security for The Lyric. The account is pledged as collateral to guarantee Conard House's obligations as the general partner. This continuing guaranty agreement shall terminate at the earliest of (i) 15 years from April 1996, or (ii) the termination of the partnership with the consent of the limited partner, or (iii) one year after the removal of the general partner from the partnership. The balance in the operating deficit fund as of June 30, 2009 was \$284,645.

The Agency maintains an impound account to be used to subsidize tenant rents and moving expenses for the McAllister Hotel in the event of termination of the lease. The impound balance as of June 30, 2009 was \$63,139.

The Agency also has a bank account for the employees' cafeteria plan, and the balance as of June 30, 2009 was \$690.

(5) CLIENTS' FUNDS

As part of the cash management services, the Agency acts as an agent, receiving checks and disbursing money for rent and other expenditures on behalf of its clients. All the clients' funds are segregated and held in trust, distinct from the Agency's funds. Expenses incurred for the maintenance of the bank account are borne by the Agency. At June 30, 2009, the balance of the clients' funds was \$975,400.

(6) PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2009 consisted of the following:

Land	\$ 2,991,216
Buildings and improvements	21,548,890
Furniture, fixtures, and equipment	1,009,715
Leasehold improvements	121,456
Vehicles	<u>5,440</u>
	25,676,717
Less accumulated depreciation and amortization	<u>(8,391,805)</u>
Property and equipment, net	<u>\$ 17,284,912</u>

(7) BANK LINE OF CREDIT

Conard House had a \$1,000,000 revolving business line of credit with Wells Fargo Bank until June 2009 when the line of credit was increased to \$1,200,000 and renewed until June 10, 2012. The line of credit carries interest at the greater of the Bank's Prime Rate plus 0.875% or the Floor Rate of 5%. The line of credit is secured by the first lien on the Jackson Street property and all personal properties owned by Conard House, Inc., and guaranteed by Conard Housing

CONARD HOUSE, INC. AND RELATED ORGANIZATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009

Development Corporation. The Agency also agrees to maintain a zero balance on the line of credit for a minimum of 30 consecutive days during the first twelve months of the line of credit, and during each successive twelve-month period. The loan agreement also requires Conard House, Inc. to maintain Debt Coverage Ratio, as defined in the agreement, not less than 1.25 to 1 as of the end of each year. The outstanding loan balance at June 30, 2009 was \$1,045,000.

(8) LONG-TERM DEBTS

Long-term debts at June 30, 2009 consisted of:

\$1,425,000 and \$1,925,000, 3% notes payable to the California Department of Housing and Community Development (DHCD), interest payable annually from available cash flow, principal due in August 2020, secured by deeds of trust and assignment of rents on El Dorado and Midori Hotels, with accrued interest at June 30, 2009 of \$1,205,180 ^(a). \$ 3,350,000

\$1,139,762 and \$1,114,157, 10% notes payable to the Redevelopment Agency of the City and County of San Francisco (Redevelopment Agency), total monthly principal installments of \$5,366 beginning in August 2006, with interest to be forgiven at the end of the loan terms, due August 2040, secured by deeds of trust and assignment of rents on El Dorado and Midori Hotels. Management has requested the Redevelopment Agency for the deferment of the monthly principal payments ^(b). 2,253,919

\$997,000, non-interest bearing note payable to the Redevelopment Agency, due in February 2041, with principal to be forgiven at the end of the loan term, secured by deed of trust and assignment of rents on Washburn Hotel, net of accumulated amortization of \$358,155 ^(c). 638,845

\$400,000, non-interest bearing note payable to the City and County of San Francisco, due in 2041, principal to be forgiven at the end of the loan term, secured by deed of trust and assignment of rents on Washburn Hotel, net of accumulated amortization of \$144,000 ^(c). 256,000

\$626,216, non-interest bearing note payable to the City and County of San Francisco, due February 2046, secured by deed of trust on the Lyric Hotel land and assignment of rents of the land lease ^(d). 626,216

\$214,500, adjustable rate mortgage loan payable to Capmark, secured by a first deed of trust on the 26th Street triplex property and assignment of rents, maturing on November 1, 2027. The initial interest rate was 7.96% with monthly payments in principal and interest of \$1,568. The interest rate and monthly payments are adjusted every ten years. The interest was adjusted in December 2007 to 6.64% with monthly payments in principal and interest of \$1,417. 180,797

\$888,676 loan payable to San Francisco Redevelopment Agency. This

CONARD HOUSE, INC. AND RELATED ORGANIZATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 JUNE 30, 2009

<p>note is non-interest bearing, due in September 2056 as amended, secured by deed of trust and assignment of rents on the 26th Street property. According to the loan amendment, the annual repayment of the loan principal is conditioned on the availability of the property's annual residual receipts, as defined in the loan agreement. The remaining principal balance will be forgiven at the end of the loan term. The net accumulated amortization was \$17,343 prior to the loan amendment and there was no additional amortization because of the change in the terms by the loan amendment.</p>	871,333
<p>\$2,644,798, non-interest bearing note payable to the Mayor's Office of Housing of the City and County of San Francisco, due May 2054, principal to be forgiven annually at the rate of 1/55th of the original loan amount, secured by deed of trust and assignment of rents on Midori Hotel, net of accumulated amortization of \$437,853^(e).</p>	2,206,945
<p>\$539,000 non-interest bearing note payable to First Republic Bank, principal forgivable by May 2016, secured by second deed of trust and assignment of rents on Midori Hotel ^(f).</p>	539,000
<p>\$593,217, non-interest bearing note payable to Mayor's Office of Housing of the City and County of San Francisco, principal is payable annually based on 50% of the residual receipts beginning January 2004, with remaining principal balance due in June 2077, secured by deed of trust on McAllister Street property ^{(b) (g)}.</p>	593,217
<p>\$439,983, non-interest bearing note payable to the Mayor's Office of Housing of the City and County of San Francisco, principal is payable annually based on 50% of the residual receipts beginning January 2005, with remaining principal due in June 2077, secured by deed of trust on McAllister Street property. As of June 30, 2009, \$1,662 principal has been paid from the residual receipts ^(b).</p>	438,321
<p>\$2,399,431 original loan from the Mayor's Office of Housing (MOH) of the City and County of San Francisco dated February 8, 2006, secured by The Lyric owned by Lyric Housing Associates (the Partnership). \$210,170 of principal was repaid as in prior year. In September 2007, MOH approved additional \$182,729 loan to the Partnership for the improvements of its sprinkler system, and the promissory note was amended. However, there were errors in the new Amended and Restated Secured Promissory Note regarding the loan balance and the accrued interest balance, and the note was amended again in June 2009. The promissory note was amended to the face value of \$2,605,410, including \$233,420 of additional loan for property improvements to be completed by December 2009. According to the amended promissory note, interest will be accrued on the outstanding principal balance at the rate of 3% per annum, simple interest, to be accrued and paid only to the extent of available Residual Receipts in any calendar year. To the extent there are</p>	

CONARD HOUSE, INC. AND RELATED ORGANIZATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009

insufficient Residual Receipts to pay interest due in any calendar year, the interest shall not accrue. All Residual Receipts are required to be deposited into the replacement reserve account. In the event the Partnership fails to deposit all Residual Receipts into the replacement reserve account, or if MOH determines that the replacement reserve account is sufficiently funded, the Partnership must instead make annual payments of principal and interest due in an amount equal to such Residual Receipts. The entire unpaid principal balance and accrued interest will be due and payable in 50 years from the amendment date. Upon an Event of Default, the interest will be accrued on the outstanding principal balance of the loan at a compound annual rate equal to the lesser of: (a) 10%; or (b) the maximum lawful rate of interest. The Partnership also agreed to stop payment of partnership management fee after year 2011. Upon MOH approval of the Asset Management Plan, an annual asset management fee indicated in the Annual Operating Budget and Approved by the City may be paid out of the Project Income per the MOH Asset Management Fee Policy. The accrued interest during construction period through June 1997 was \$78,983, and it was still outstanding as of June 30, 2009.

2,371,990

\$261,000 loan from the Bank of America Community Development Bank Affordable Housing Program, secured by The Lyric, non-interest bearing; due in 55 years but will be forgiven if the project complies with specified requirements of the California Tax Credit Allocation Committee, the City and County of San Francisco, and the Federal Home Loan Bank Affordable Housing Program during the period.

261,000

\$1,250,000 loan from California Department of Housing and Community Development (DHCD) with interest at 3% and maturing in May 2060. The interest is payable at .42% annually for the first twenty-nine years, and commencing on the 30th anniversary until maturity, annual payments in an amount equal to the lesser of (a) the full amount of interest accruing on the unpaid principal amount for the immediately preceding 12 month period, or (b) the amount determined by DHCD to be necessary to cover the costs of continued monitoring of the project for compliance. DHCD may require additional payments from Net Cash Flow according to the regulatory agreement. All payments apply to accrued interest before the reduction of principal balance. The loan is secured by the deed of trust on Jordan Housing Property. At June 30, 2009, the accrued interest was \$132,556.

1,250,000

Total Long-Term Debts

15,837,583

Less current portion

258,852

Long-term portion

\$ 15,578,731

CONARD HOUSE, INC. AND RELATED ORGANIZATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009

- (a) The payment of accrued interest is determined annually by DHCD based on the cash flow availability after funding of the reserve accounts.
- (b) In the event of default, the entire amount in principal and interest at 10% per annum are due. No interest has been accrued on these loans.
- (c) In the event of default, the original loan balances plus interest at 10% per annum are due. The loan balances have been amortized on a straight-line basis over the term of the loans as debt forgiveness.
- (d) In the event of default, the entire amount in principal plus compounded interest at 10% per annum are due. This loan was used to acquire the Lyric Hotel land.
- (e) In the event of default, interest shall be deemed to have accrued on the outstanding principal balance of the loan at a compounded annual rate equal to the lesser of 10% or the maximum lawful rate of interest, commencing on the date of the close of escrow.
- (f) This loan, disbursed in September 2000 from First Republic Bank (First Republic), is a direct subsidy obtained under the *Affordable Housing Program* (AHP) through the Federal Home Loan Bank of San Francisco (FHLB). First Republic, in its sole discretion, may forgive the Agency's obligation to repay, or pay interest on, any part of the AHP subsidy after 15 years from the date the rehabilitation project is completed. In the event First Republic becomes obligated to repay any amount advanced by FHLB to fund the subsidy, or in other events, as defined by the agreement, the Agency, upon demand, is required to reimburse First Republic for all repayments to FHLB in addition to interest equal to the rate charged to First Republic by FHLB plus 3%.
- (g) This loan, disbursed in June 2002, is a funding from HOME Investment Program of the U.S. Department of Housing and Urban Development (HUD) passed through the City and County of San Francisco.

The Agency is required to maintain programs at the above-secured properties in accordance with the loan agreements, in addition to other covenants. The program requirements are consistent with the Agency's current program services.

As of June 30, 2009, the non-forgivable and non-amortized notes mature as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2010	\$ 258,852
2011	71,795
2012	72,171
2013	72,574
2014	73,004
Thereafter	<u>10,516,064</u>
Total	<u>\$ 11,064,460</u>

CONARD HOUSE, INC. AND RELATED ORGANIZATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009

(9) INVESTMENT RETURN

The investment return for the year ended June 30, 2009 consisted of the following:

Interest income from bank and brokerage firm accounts	\$ <u>25,273</u>
---	------------------

(10) LEASE COMMITMENTS

Operating Leases – The Agency had a five-year lease effective November 1, 2003 for its administrative office located in San Francisco. In August 2008, the Agency exercised the option to extend the lease for additional five years through October 31, 2013 with annual rent increasing from \$7,549 from first option year to \$8,497 for the fifth option year.

The Agency had a five-year master lease effective May 2004 for McAllister Hotel property for its DHS supportive housing program. The initial monthly base rent was \$20,746 increasing annually based on the allowable percentage published by the San Francisco Rent Stabilization Board. The lease has an option to renew for 5 additional periods of one year each. The lease was renewed for additional one year with monthly payment of \$23,015 effective May 2009.

The Agency had an office lease on Market Street from July 1, 2007 to September 30, 2009 with monthly rent of \$1,395 for first year and \$1,465 thereafter. The lease was terminated by the Agency upon its expiration.

In addition, the Agency leases other office spaces, operating facilities, and apartment complexes for its Cooperative Apartment Program at various locations under lease agreements with various expiration dates and some are on a month-to-month basis.

The Agency is responsible for all operating and maintenance expenses at the leased properties. For the fiscal year ended June 30, 2009, total rental expense for all properties was \$773,168.

The Agency has a copier lease agreement with total monthly payments of \$3,516 for 36 months effective June 2009.

The estimated future minimum rental payments for the non-cancelable operating leases as of June 30, 2009 were as follows:

<u>Year Ending June 30,</u>	<u>Real Estate</u>	<u>Equipment</u>
2010	\$ 393,195	\$ 42,192
2011	95,176	42,192
2012	98,036	38,676
2013	100,976	-
2014	33,988	-
Thereafter	-	-

CONARD HOUSE, INC. AND RELATED ORGANIZATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009

(11) EQUIPMENT LOAN

In May 2007, the Agency obtained a loan of \$19,933 to finance the purchase of an accounting software. The loan carries annual interest of 11.2% and is payable in 36 monthly payments of \$654 starting July 1, 2007.

Principal payments for the equipment loan for the year ending June 30, 2010 will be \$7,399.

(12) TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2009 consisted of:

SFRA grant - Jordan Apartments (a)	\$ 4,256,076
Cumulative net asset released from restriction (b)	<u>(268,461)</u>
Remaining balance	<u>\$ 3,987,615</u>

(a) On August 26, 2003, the Agency received a cost reimbursement grant of \$4,381,735 from San Francisco Redevelopment Agency (SFRA) for the acquisition, rehabilitation and operation of Jordan Apartments in San Francisco. In September 2003, the Agency acquired the Jordan Apartments with a total cost of \$2,069,995. As of June 30, 2009, the Agency has incurred a total of \$2,186,081 on the rehabilitation costs of Jordan Apartments using the grant fund. Under the grant and regulatory agreement, the grant restricts the tenants to be those with 50% or less of Area Median Income and the maximum rent shall not exceed 30% of 50% of Median Income. The grant and regulatory agreement terminates in August 2068. In an event of default, interest shall be accrued on the outstanding principal balance at a compounded annual rate equal to the lesser of: (i) 10% or (ii) the maximum lawful rate of interest, commencing on the date of close of escrow.

(b) After the rehabilitation of the Jordan Apartments was completed, starting July 2005 the Agency recorded the release of the temporarily restriction in Jordan Apartments ratably over the remaining regulatory period, which amounted to \$67,587 annually. Total net asset released from restriction in current fiscal year is \$67,587.

(13) EMPLOYEE RETIREMENT PLAN

Employees who work at least 20 hours a week are eligible to participate in the Section 403 (b) tax-deferred annuity plan. Participating employees may contribute up to the maximum amount allowed by law, with the Agency matching 20% of the contribution up to 20% of the employee's salary. In addition, the Agency may make additional contribution at the discretion of the Board. There was no discretionary contribution for the year ended June 30, 2009. For fiscal year ended June 30, 2009, total amount contributed by the Agency was \$56,914.

In July 2007, the Board of Directors approved the adoption of a Section 457 (b) Top Hat Deferred Compensation Plan. There are currently 2 participants in the plan. Participants may contribute up to the maximum specified in the Section 457 Code. The Agency will match

CONARD HOUSE, INC. AND RELATED ORGANIZATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009

employee contributions at the same rate as that of the Section 403(b) plan, currently 20% when fully vested at 5 years of services. The amount of match is calculated annually in January, and unlike the Section 403(b) plan, it is held as a liability rather than distributed to the participant accounts. The Section 457 (b) contribution liability as of June 30, 2009 was \$2,424.

(14) CONCENTRATION OF CREDIT RISK

The Agency maintains its cash in several banks and one brokerage firm. The cash balances in the banks are insured by Federal Deposit Insurance Corporation (FDIC) for up to \$250,000 at each bank. In addition, the checking accounts in the banks participating in the FDIC Transaction Account Guarantee Program have unlimited insurance through June 30, 2010. The securities and cash in the brokerage accounts are protected by Security Investor Protection Corporation (SIPC) for up to a maximum of \$500,000, including \$100,000 in claims on cash. The balances at the banks, at times throughout the year, may exceed the insured limit. At June 30, 2009, the amount at the banks that exceeded the FDIC insured limit was \$527,410.

(15) CONTINGENCIES

The Agency participates in several grant/contract programs assisted by various government agencies. Those programs are subject to financial and compliance audits by the grantors or their representatives, the purpose of which is to ensure compliance with conditions and restrictions of the grant agreements. In the opinion of management, any liability for reimbursement, which may arise as the result of these audits, will not be material.

In the normal course of business, the Agency is involved with matters that result in litigation. Management believes that no such matter will result in a significant adverse impact on the Agency.

(16) UNION CONTRACT

The Agency has an employee union contract with the *Social Services Union, Local 1021 (formerly Local 535), SEIU, AFL-CIO-CLC* for all employees except for the administrative and supervisory personnel. The union contract specifies that there shall be no lockout by the employer and no strike by the union. The Agency also recognizes the union as the sole collective bargaining agent for its employees pursuant to a *Recognition Agreement*. Union dues are withheld from the employees' payroll and submitted to the union by the Agency.

SUPPLEMENTAL INFORMATION

CONARD HOUSE, INC. AND RELATED ORGANIZATIONS
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

June 30, 2009

With Summarized Financial Information at June 30, 2008

	2009					Total 2008
	Conard House	Housing Corporations	Lyric Housing Associates	Eliminations	Consolidated	Summarized Information
<u>Assets</u>						
Current Assets						
Cash and cash equivalents	\$ 108,151	\$ 122,862	\$ 1,985	\$ -	\$ 232,998	\$ 337,637
Contracts, fees and rent receivable, net of allowance for doubtful accounts of \$43,971	742,447	14,378	7,784	-	764,609	252,089
Other receivables	50,934	-	-	-	50,934	6,889
Prepaid expenses	120,140	-	12,283	-	132,423	75,062
Total Current Assets	<u>1,021,672</u>	<u>137,240</u>	<u>22,052</u>	<u>-</u>	<u>1,180,964</u>	<u>671,677</u>
Property and equipment, net	739,014	12,768,694	3,777,204	-	17,284,912	17,921,294
Other Assets						
Cash - restricted	348,474	1,328,870	171,792	-	1,849,136	1,548,574
Deposits	30,718	2,866	3,169	-	36,753	33,895
Refundable deposits	42,035	10,913	6,237	-	59,185	58,468
Loan fees, net of accumulated amortization of \$1,098	-	1,705	-	-	1,705	1,798
Clients' funds - contra	975,400	-	-	-	975,400	781,679
Intercompany receivable (payable)	663,906	(498,365)	(165,541)	-	-	-
Total Other Assets	<u>2,060,533</u>	<u>845,989</u>	<u>15,657</u>	<u>-</u>	<u>2,922,179</u>	<u>2,424,414</u>
Total Assets	<u>\$ 3,821,219</u>	<u>\$ 13,751,923</u>	<u>\$ 3,814,913</u>	<u>\$ -</u>	<u>\$ 21,388,055</u>	<u>\$ 21,017,385</u>
<u>Liabilities and Net Assets</u>						
Current Liabilities						
Accounts payable	\$ 305,752	\$ 86,681	\$ 30,900	\$ -	\$ 423,333	\$ 361,044
Property and equipment payable	-	-	-	-	-	19,625
Deferred revenue	-	2,265	2,874	-	5,139	6,418
Accrued interest and expenses	356,954	3,780	3,852	-	364,586	319,173
Equipment loan payable - current portion	1,057	6,342	-	-	7,399	7,754
Long-term debts - current portion	-	258,852	-	-	258,852	192,673
Bank line of credit	-	-	-	-	-	502,982
Total Current Liabilities	<u>663,763</u>	<u>357,920</u>	<u>37,626</u>	<u>-</u>	<u>1,059,309</u>	<u>1,409,669</u>
Bank line of credit	1,045,000	-	-	-	1,045,000	-
Intercompany note payable (receivable)	128,000	(128,000)	-	-	-	-
Long-term debts, net of accumulated amortization of \$957,351	626,216	12,319,525	2,632,990	-	15,578,731	15,696,471
Equipment loan payable	-	-	-	-	-	7,399
Equity investment in Lyric Housing Associates	-	1,426	-	(1,426)	-	-
Security deposits	37,430	10,913	5,896	-	54,239	53,364
Tenant move out reserve fund liabilities	63,139	-	-	-	63,139	49,939
Deferred interest	-	1,337,736	78,983	-	1,416,719	1,283,970
Clients' funds - contra	975,400	-	-	-	975,400	781,679
Total Liabilities	<u>3,538,948</u>	<u>13,899,520</u>	<u>2,755,495</u>	<u>(1,426)</u>	<u>20,192,537</u>	<u>19,282,491</u>
Minority Interest in Partnership	-	-	1,060,844	-	1,060,844	1,139,828
Net Assets						
Unrestricted	282,271	(4,135,212)	(1,426)	1,426	(3,852,941)	(3,460,136)
Temporarily restricted	-	3,987,615	-	-	3,987,615	4,055,202
Total Net Assets	<u>282,271</u>	<u>(147,597)</u>	<u>(1,426)</u>	<u>1,426</u>	<u>134,674</u>	<u>595,066</u>
Total Liabilities and Net assets	<u>\$ 3,821,219</u>	<u>\$ 13,751,923</u>	<u>\$ 3,814,913</u>	<u>\$ -</u>	<u>\$ 21,388,055</u>	<u>\$ 21,017,385</u>

CONARD HOUSE, INC. AND RELATED ORGANIZATIONS
CONSOLIDATING SCHEDULE OF ACTIVITIES

For the Year Ended June 30, 2009

With Summarized Financial Information for the Year Ended June 30, 2008

	Conard House	Housing Corporations	Lyric Housing Associates	Elimination	Consolidated	Total 2008 Summarized Information
Changes in Unrestricted Net Assets:						
Support and Revenue						
Governmental support:						
Community Mental Health Services	\$ 6,049,806	\$ -	\$ -	\$ -	\$ 6,049,806	\$ 5,814,889
Community Services - DHS	2,195,796	-	-	-	2,195,796	2,324,564
Rental assistance - Shelter Plus Care & Section 8	-	509,228	411,855	-	921,083	867,313
DPH subsidy	336,345	109,708	90,788	(536,841)	-	-
Money management services	313,486	-	-	-	313,486	222,552
Contributions	10,886	163	-	-	11,049	26,672
Foundation grants	119,500	-	-	-	119,500	40,000
Rental income	658,527	1,168,124	151,690	(220,262)	1,758,079	1,816,860
Client fees	81,035	-	-	-	81,035	88,923
Developer fee	-	-	-	-	-	8,838
Janitorial and messenger revenue	251,155	-	-	(251,155)	-	-
Investment return	7,181	17,509	583	-	25,273	34,498
Debt forgiveness	-	76,027	-	-	76,027	76,027
Income (loss) from Lyric Housing Associates	-	(85)	-	85	-	-
Management fees	91,388	14,810	-	(106,198)	-	-
Other income	25,877	8,587	1,923	-	36,387	44,916
Satisfaction of donor's restriction	-	67,587	-	-	67,587	82,587
Total Unrestricted Support and Revenue	<u>10,140,982</u>	<u>1,971,658</u>	<u>656,839</u>	<u>(1,114,371)</u>	<u>11,655,108</u>	<u>11,448,639</u>
Expenses						
Program:						
Jackson Street	1,008,688	60,491	-	(81,882)	987,297	959,070
DPH Supportive Housing	5,273,619	2,272,496	-	(865,760)	6,680,355	6,556,731
DHS Supportive Housing	1,411,272	-	-	(65,710)	1,345,562	1,306,027
Community services	1,898,496	-	-	(84,130)	1,814,366	1,749,235
Supportive employment services	292,496	-	-	-	292,496	315,237
Lyric Housing	-	-	735,908	(15,000)	720,908	698,019
Management and general	188,968	-	-	(1,974)	186,994	137,691
Fundraising	98,919	-	-	-	98,919	96,308
Total Expenses	<u>10,172,458</u>	<u>2,332,987</u>	<u>735,908</u>	<u>(1,114,456)</u>	<u>12,126,897</u>	<u>11,818,318</u>
Change in Unrestricted Net Assets	<u>(31,476)</u>	<u>(361,329)</u>	<u>(79,069)</u>	<u>85</u>	<u>(471,789)</u>	<u>(369,679)</u>
Changes in Temporarily Restricted Net Assets:						
Satisfaction of donor's restriction	-	(67,587)	-	-	(67,587)	(82,587)
Change in Temporarily Restricted Net Assets	<u>-</u>	<u>(67,587)</u>	<u>-</u>	<u>-</u>	<u>(67,587)</u>	<u>(82,587)</u>
Change in Net Assets, before Minority Interest	<u>(31,476)</u>	<u>(428,916)</u>	<u>(79,069)</u>	<u>85</u>	<u>(539,376)</u>	<u>(452,266)</u>
Minority Interest	-	-	78,984	-	78,984	53,647
Change in Net Assets	<u>(31,476)</u>	<u>(428,916)</u>	<u>(85)</u>	<u>85</u>	<u>(460,392)</u>	<u>(398,619)</u>
Net Assets, beginning of year	<u>313,747</u>	<u>281,319</u>	<u>(1,341)</u>	<u>1,341</u>	<u>595,066</u>	<u>993,685</u>
Net Assets, end of year	<u>\$ 282,271</u>	<u>\$ (147,597)</u>	<u>\$ (1,426)</u>	<u>\$ 1,426</u>	<u>\$ 134,674</u>	<u>\$ 595,066</u>

CONARD HOUSE, INC. AND RELATED ORGANIZATIONS
CONSOLIDATING SCHEDULE OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2009

With Summarized Financial Information for the Year Ended June 30, 2008

	Conard House	Housing Corporations	Lyric Housing Associates	Elimination	Consolidated	<i>Total 2008 Summarized Information</i>
Expenses						
Salaries	\$ 5,281,660	\$ 424,343	\$ 189,213	\$ -	\$ 5,895,216	\$ 5,675,157
Payroll taxes and employee benefits	1,409,740	127,068	56,670	-	1,593,478	1,472,435
Consultation	129,363	7,197	-	-	136,560	174,052
Legal and accounting fees	110,150	69,370	28,754	-	208,274	192,829
Management fee	20,880	97,642	39,252	(106,198)	51,576	50,856
Insurance	105,278	80,425	43,447	-	229,150	240,686
Rent	973,347	9,467	10,616	(220,262)	773,168	795,470
Utilities	139,444	200,166	72,318	-	411,928	404,076
Telephone	102,665	12,986	511	-	116,162	102,884
Maintenance and repairs	551,595	484,065	134,506	(251,155)	919,011	937,490
Furniture replacement	89,683	16,942	-	-	106,625	58,115
Security	40,876	22,650	-	-	63,526	164,634
Equipment rental	58,816	1,662	-	-	60,478	61,380
Office expense and supplies	166,317	14,999	8,065	-	189,381	181,193
DPH subsidy	536,841	-	-	(536,841)	-	-
Courier service	4,074	-	-	-	4,074	11,765
Travel and training	54,426	7,902	1,403	-	63,731	62,907
Client services	179,192	3,172	-	-	182,364	153,915
Depreciation and amortization	53,462	567,142	138,229	-	758,833	759,161
Interest	21,486	151,620	-	-	173,106	206,484
Bad debts	38,955	598	6,576	-	46,129	7,653
Miscellaneous	104,208	33,571	6,348	-	144,127	105,176
Total Expenses	\$ 10,172,458	\$ 2,332,987	\$ 735,908	\$ (1,114,456)	\$ 12,126,897	\$ 11,818,318

CONARD HOUSE, INC. AND RELATED ORGANIZATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2009

<u>Federal Grantor / Pass Through Grantor / Program Title:</u>	<u>Federal CFDA No.</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>		
Title I - Community Development Block Grants/Entitlement Grants, loans passed through the Mayor's Office of Housing of the City and County of San Francisco	14.218	\$ 3,271,014
Title IV - Shelter Plus Care Program, passed through the Mayor's Office of Housing of the City and County of San Francisco	14.238	76,883
HOME Investment Partnership Program, loan passed through the Mayor's Office of Housing of the City and County of San Francisco	14.239	593,217
Section 8 Moderate Rehabilitation Single Room Occupancy, passed through San Francisco Housing Authority	14.249	<u>432,345</u>
 Total Federal Awards		 <u>\$ 4,373,459</u>

Basis of Presentation

The above schedule of expenditures of federal awards is prepared based on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.



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

To the Board of Directors
Conard House, Inc. and Related Organizations
San Francisco, California

We have audited the consolidated financial statements of Conard House, Inc. and related organizations (California nonprofit organizations) as of and for the year ended June 30, 2009, and have issued our report thereon dated December 29, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Conard House, Inc. and related organizations' financial statements are free of material misstatement, we performed tests of its compliance with certain

provisions of laws, regulations, contracts, grants and agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Conard House, Inc. and related organizations in a separate letter dated December 29, 2009.

This report is intended solely for the information and use of the audit committee, board of directors, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Le, Ho & Company, LLP

Daly City, California
December 29, 2009



Le, Ho & Company, LLP
Certified Public Accountants

402 Westlake Center, Daly City, CA 94015
Tel: 650-758-1222 Fax: 650-758-1221

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the Board of Directors
Conard House, Inc. and Related Organizations
San Francisco, California

Compliance

We have audited the compliance of Conard House, Inc. and related organizations (California nonprofit organizations) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to their major federal programs for the year ended June 30, 2009. Conard House, Inc. and related organizations' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of their major federal programs is the responsibility of the management of Conard House, Inc. and related organizations. Our responsibility is to express an opinion on Conard House, Inc. and related organizations' compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Conard House, Inc. and related organizations' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Conard House, Inc. and related organizations' compliance with those requirements.

In our opinion, Conard House, Inc. and related organizations complied, in all material respects, with the requirements referred to above that are applicable to each of their major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Conard House, Inc. and related organizations is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Conard

House, Inc. and related organizations' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Conard House, Inc. and related organizations' internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended solely for the information and use of the audit committee, board of directors, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Le, Ho & Company, LLP

Daly City, California
December 29, 2009

CONARD HOUSE, INC. AND RELATED ORGANIZATIONS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2009

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditor’s report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiencies identified that are not considered to be material weakness(es)? yes none reported

Type of auditor’s report issued on compliance for major program: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes no

Identification of major program:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	<i>Community Development Block Grants/Entitlement Grants</i>
14239	<i>HOME Investment Partnership Program</i>

Dollar threshold used to distinguish between type A and type B programs \$ 300,000

Auditee qualified as low-risk auditee? yes no

CONARD HOUSE, INC. AND RELATED ORGANIZATIONS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2009

Section II—Financial Statement Findings

NONE

Section III—Federal Award Findings and Questioned Costs

NONE

CONARD HOUSE, INC. AND RELATED ORGANIZATIONS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2009

There was no audit finding in the prior year.