



HOUSING HOPE AND SUBSIDIARIES

Consolidated Financial Statements

For the Year Ended June 30, 2018

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Independent Auditor's Report

To the Board of Directors
Housing Hope
Everett, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Housing Hope and Subsidiaries (collectively, the Agency), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



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Report on Summarized Comparative Information

We have previously audited the Agency's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 26, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information, including comparative totals, shown on pages 48 to 51 is presented for purposes of additional analysis, and is not a required part of the consolidated financial statements. 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

The information on the community served and donated hours included in Notes 1 and 2, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2019 on our consideration of the Agency'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Clark Nuber P.S.

Certified Public Accountants
January 28, 2019

HOUSING HOPE AND SUBSIDIARIES

Consolidated Statement of Financial Position

June 30, 2018

(With Comparative Totals for 2017)

	2018	2017
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,061,870	\$ 428,999
Short-term investments (Note 4)	124,000	268,000
Accounts receivable, net of an allowance for doubtful accounts of \$9,427 (\$8,257 - 2017)	241,586	249,687
Grants and contracts receivable	806,391	267,391
Due from affiliates (Note 16)	405,117	246,804
Current portion of notes receivable, accrued interest and deferred developer fees due from affiliates and related party (Note 16)	932,779	259,779
Pledges receivable, current portion (Note 5)	169,324	131,003
Real estate inventory	792,220	529,011
Prepaid expenses and other current assets	69,135	73,629
Total Current Assets	4,602,422	2,454,303
Assets designated by board for long-term reserves and investment in long-term assets (Note 6)	1,511,022	1,364,486
Assets restricted by donors for the acquisition of long-term assets (Note 9)	1,368,576	2,056,577
Assets restricted by donors for endowments and long-term reserves (Note 9)	1,565,698	1,651,213
Pledges receivable, long-term portion (Note 5)	56,441	89,292
Self-help family loans receivable	523,323	500,281
Restricted reserves and deposits (Note 3)	298,538	360,481
Funds held in trust	40,953	77,407
Land, buildings, and equipment, net (Note 10)	35,063,374	37,020,755
Notes receivable, accrued interest and deferred developer fees due from affiliates and related party, net of current portion (Note 16)	12,160,699	3,097,427
Project development costs (Note 11)	1,093,094	1,694,549
Investment in limited partnerships and limited liability companies	1,339,791	1,339,847
Total Assets	\$ 59,623,931	\$ 51,706,618
Liabilities and Net Assets		
Current Liabilities:		
Short-term borrowings (Note 12)	\$ 1,291,848	\$ 381,039
Accounts payable and accrued expenses	1,372,750	1,078,705
Construction payable	65,286	137,266
Deferred revenue	16,430	72,381
Current portion of accrued interest	68,112	66,365
Current portion of long-term debt (Note 13)	401,136	2,128,264
Total Current Liabilities	3,215,562	3,864,020
Accrued long-term expenses	193,468	153,089
Accrued interest on long-term debt	1,141,452	1,015,809
Long-term debt, net of current portion and unamortized financing fees (Note 13)	30,688,466	23,767,079
Total Liabilities	35,238,948	28,799,997
Net Assets:		
Unrestricted-		
Undesignated	10,270,179	9,354,317
Designated by the Board of Directors (Note 6)	2,678,005	2,423,298
Total unrestricted	12,948,184	11,777,615
Temporarily restricted (Note 7)	10,530,404	10,226,211
Permanently restricted (Note 8)	906,395	902,795
Total Net Assets	24,384,983	22,906,621
Total Liabilities and Net Assets	\$ 59,623,931	\$ 51,706,618

See accompanying notes.

HOUSING HOPE AND SUBSIDIARIES

Consolidated Statement of Activities For the Year Ended June 30, 2018 (With Comparative Totals for 2017)

	2018			Total	2017
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Operating Activities					
Support, Revenue and Gains:					
Contributions	\$ 399,875	\$ 1,727,377	\$ 3,600	\$ 2,130,852	\$ 1,937,562
In-kind contributions	927,814			927,814	375,464
United Way	238,230			238,230	208,440
Fees and grants from governmental agencies	2,699,054			2,699,054	1,898,636
Program service fees and rents	5,725,002			5,725,002	5,180,003
Management and development fees	1,556,740			1,556,740	195,892
Gain on sale of land, buildings and equipment	273,889			273,889	
Interest and other income	361,928	108,129		470,057	435,450
Total Operating Support, Revenue and Gains	12,182,532	1,835,506	3,600	14,021,638	10,231,447
Net assets released from restrictions	1,614,266	(1,614,266)			
Total Operating Support, Revenue and Gains	13,796,798	221,240	3,600	14,021,638	10,231,447
Expenses:					
Housing development	922,532			922,532	872,153
Property management	4,324,407			4,324,407	4,182,199
Social services	3,794,970			3,794,970	3,364,019
HopeWorks	2,535,156			2,535,156	1,921,987
Resource development	546,181			546,181	526,587
Administration	1,202,686			1,202,686	954,606
Total Operating Expenses					
(Including depreciation of \$1,409,830 and \$1,418,260 for 2018 and 2017, respectively)	13,325,932			13,325,932	11,821,551
Change in Net Assets From Operating Activities	470,866	221,240	3,600	695,706	(1,590,104)
Nonoperating Activities					
Release of restricted net assets - forgivable loan amortization	387,537	(387,537)			
Contributions for the acquisition of long-term assets		1,401,623		1,401,623	1,938,308
Net assets released from restriction for the acquisition of long-term assets	931,133	(931,133)			
Loss on the sale of real estate inventory	(19,437)			(19,437)	(87,165)
Impairment of real estate inventory					(74,565)
Transfer of assets to affiliates and related party	(601,965)			(601,965)	
In-kind contribution of long-term assets	2,435			2,435	18,043
Change in Net Assets From Nonoperating Activities	699,703	82,953		782,656	1,794,621
Change in Net Assets	1,170,569	304,193	3,600	1,478,362	204,517
Net assets, beginning of year	11,777,615	10,226,211	902,795	22,906,621	22,702,104
Net Assets, End of Year	\$ 12,948,184	\$ 10,530,404	\$ 906,395	\$ 24,384,983	\$ 22,906,621

See accompanying notes.

HOUSING HOPE AND SUBSIDIARIES

**Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)**

	Program Services				Supporting Services				2018 Total	2017 Total
	Housing Development	Property Management	Social Services	HopeWorks	Total Program Services	Resource Development	Administration	Total Supporting Services		
Personnel:										
Salary and wages	\$ 551,711	\$ 749,931	\$ 2,506,780	\$ 1,126,180	\$ 4,934,602	\$ 367,269	\$ 818,763	\$ 1,186,032	\$ 6,120,634	\$ 5,018,366
Payroll taxes	59,795	87,928	232,735	125,921	506,379	31,049	68,302	99,351	605,730	496,964
Employee benefits	66,585	63,318	284,411	109,079	523,393	45,426	93,806	139,232	662,625	509,294
Total Personnel	678,091	901,177	3,023,926	1,361,180	5,964,374	443,744	980,871	1,424,615	7,388,989	6,024,624
Professional fees	11,888	31,389	88,510	70,351	202,138	3,359	50,125	53,484	255,622	737,078
Supplies	4,818	9,061	144,838	80,133	238,850	8,038	33,682	41,720	280,570	223,699
Printing and postage	6,485	6,083	12,976	1,303	26,847	24,394	6,228	30,622	57,469	51,010
Information technology	8,348	71,204	89,751	40,729	210,032	8,573	18,690	27,263	237,295	197,824
Occupancy	14,942	567,428	58,630	104,126	745,126	1,739	6,037	7,776	752,902	652,774
Maintenance and repairs	151,282	441,905	61,998	63,819	719,004	1,508	10,872	12,380	731,384	533,318
Equipment and furniture	20,331	145,468	3,786	33,479	203,064		1,320	1,320	204,384	172,076
Vehicles			10,870	32,317	43,187		37	37	43,224	36,480
Insurance	5,350	118,977	20,109	18,031	162,467	4,479	1,846	6,325	168,792	164,668
Education and training	7,378	6,086	12,865	8,388	34,717	3,666	10,274	13,940	48,657	50,735
Mileage and travel	6,678	18,892	43,273	7,616	76,459	1,695	2,680	4,375	80,834	73,440
Client assistance	872	6,521	115,231	38	122,662		122	122	122,784	130,778
Interest, taxes and fees	4,439	723,800	28,744	278,466	1,035,449	18,769	46,288	65,057	1,100,506	981,319
Marketing and advertising	958	2,918	15,317	21,914	41,107	14,483	1,564	16,047	57,154	54,809
Miscellaneous	672	46,720	5,830	298,920	352,142	11,734	21,660	33,394	385,536	318,659
Total Expenses Before Depreciation	922,532	3,097,629	3,736,654	2,420,810	10,177,625	546,181	1,192,296	1,738,477	11,916,102	10,403,291
Depreciation		1,226,778	58,316	114,346	1,399,440		10,390	10,390	1,409,830	1,418,260
	\$ 922,532	\$ 4,324,407	\$ 3,794,970	\$ 2,535,156	\$ 11,577,065	\$ 546,181	\$ 1,202,686	\$ 1,748,867	\$ 13,325,932	\$ 11,821,551

See accompanying notes.

HOUSING HOPE AND SUBSIDIARIES

Consolidated Statement of Cash Flows For the Year Ended June 30, 2018 (With Comparative Totals for 2017)

	2018	2017
Cash Flows From Operating Activities:		
Change in net assets	\$ 1,478,362	\$ 204,517
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities-		
Realized and unrealized gains	(171,533)	(226,724)
Contributions for long-term purposes	(1,401,623)	(1,938,308)
In-kind contributions for imputed interest	(643,467)	
In-kind contribution of long-term assets		(18,043)
Gain on long-term debt forgiveness	(50,000)	(25,000)
(Gain) loss on sale of real estate inventory and other assets	(254,452)	87,165
Depreciation	1,409,830	1,418,260
Financing cost amortization	1,420	1,421
Impairment of fixed assets and real estate inventory		74,565
Decrease (increase) in assets:		
Accounts receivable	8,101	(131,472)
Grants and contracts receivable	(539,000)	81,021
Pledges receivable	(94,762)	(149,051)
Prepaid expenses	4,494	117,842
Self-help family loans receivable	(23,042)	(8,575)
Funds held in trust	36,454	44,094
Due from affiliates	(69,021)	54,932
Increase (decrease) in liabilities:		
Accounts payable, other accrued expenses and deferred revenue	405,863	340,641
Net Cash Provided (Used) by Operating Activities	97,624	(72,715)
Cash Flows From Investing Activities:		
Purchase of property, equipment and rehabilitation of property	(80,127)	(77,600)
Acquisition of predevelopment costs	(1,318,555)	(1,878,384)
Investment in real estate inventory	(281,079)	(609,766)
Proceeds from sale of real estate inventory		812,849
Repayment of notes receivable	138,624	1,268,311
Issuance of notes receivable	(7,126,866)	(469,971)
Investment in limited partnerships and limited liability companies	56	(158)
Proceeds from sale of short-term investments	144,000	
Purchase of short-term investments		(34,754)
Net withdrawal (deposits) to restricted reserves	61,943	254,841
Net change in assets whose use is limited or restricted-		
By board for long-term reserves and investment in long-term assets	(146,536)	308,336
By donors for reserves and investment in long-term assets	945,049	(1,805,620)
Net Cash Used by Investing Activities	(7,663,491)	(2,231,916)
Cash Flows From Financing Activities:		
Proceeds from issuance of long-term debt	7,951,386	1,227,778
Repayment of long-term debt	(2,147,160)	(827,338)
Payments for capitalized loan fees	82,080	
Proceeds from short-term borrowings	946,518	30,250
Repayment of short-term borrowings	(35,709)	(662,104)
Contributions received for long-term purposes	1,401,623	1,938,308
Net Cash Provided by Financing Activities	8,198,738	1,706,894
Net Change in Cash and Cash Equivalents	632,871	(597,737)
Cash and cash equivalents, beginning of year	428,999	1,026,736
Cash and Cash Equivalents, End of Year	\$ 1,061,870	\$ 428,999
Supplementary Disclosures:		
Cash paid during the year for interest	\$ 881,613	\$ 814,561
Sale of property and equipment with seller-financed note	\$ 2,748,030	\$ -
Predevelopment costs acquired for which accounts payable existed at year end	\$ 65,286	\$ 152,139

See accompanying notes.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 1 - Organization and Purpose

The consolidated financial statements of Housing Hope and Subsidiaries (collectively, the Agency) include the activities of Housing Hope and its subsidiaries, Building Credits, Housing Hope Properties and HopeWorks Social Enterprises.

Housing Hope was incorporated on November 9, 1987 as a not-for-profit corporation in the State of Washington. Housing Hope's mission is to promote and provide a continuum of safe, decent, affordable housing and necessary, related services for very low and low-income residents of Snohomish County and Camano Island. Housing Hope accomplishes this through cooperation with other service agencies and through the direct acquisition and subsequent management of real properties at various sites all located in the State of Washington.

Housing Hope Properties was incorporated on March 23, 1992 as a not-for-profit corporation in the State of Washington to acquire, lease, rehabilitate, construct and otherwise provide decent, safe, sanitary, and affordable housing for very low and low-income families and individuals residing in Snohomish County, Washington. Housing Hope Properties' other purposes include providing technical assistance and expanding the capacity of other nonprofit organizations interested in providing, developing, or managing decent, safe, sanitary and affordable housing for very low and low-income families and individuals in Snohomish County, Washington.

Building Credits was incorporated on June 27, 1994, as a not-for-profit corporation in the State of Washington to foster low-income housing through involvement directly or as the general partner/managing member in tax credit entities engaged in the acquisition, development and management of low-income housing.

HopeWorks Social Enterprises (HopeWorks) was incorporated in the State of Washington on January 11, 2011 as a Washington not-for profit corporation to promote and provide employment and education services for individuals needing assistance, in order to obtain and maintain increased income. HopeWorks' first social enterprise, GroundWorks, provides landscaping services for 124 properties. WaterWorks Irrigation Services provides irrigation, design and maintenance services. ReNewWorks Home and Décor is a consignment store established during 2013 in temporary space and relocated to a newly renovated Broadway location in September 2014. It is the intention of the Agency to create additional social enterprises that will have a "double bottom line" of financial viability and mission related training and employment opportunities for homeless and low-income adults. HopeWorks acquired property in March 2014 to be used as headquarters and operating space for its social enterprises. Adjacent land has also been purchased for future construction of residential and commercial space. All HopeWorks board members are appointed by the Housing Hope Board of Directors.

The Agency provides the following service programs:

Housing Development - The development of new housing units is accomplished through securing land and properties for construction or rehabilitation. During the year ended June 30, 2018, Housing Hope's completed development of Twin Lakes Landing development project. Additionally, HopeWorks Station II financing closed and construction began. Two new entities were formed at closing which own HopeWorks Station II - HopeWorks Station Residential, LLLP and HopeWorks Station Enterprises. Planning work continued for the syndication and rehabilitation work planned for the Beachwood Apartments, Lervick Apartments, and Oakes Apartments.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 1 - Continued

Team HomeBuilding - The Team HomeBuilding Housing program is included in the Housing Development column on the consolidated statement of functional expenses. This home ownership program is funded through the United States Department of Agriculture Rural Development (USDA-RD) Sec. 523 Technical Assistance Grant. The program participants receive a federally assisted USDA-RD direct Section 502 loan that enables families to use their own labor instead of a down payment to reach their goal of home ownership. Using a collective process of owner-builder home construction, Team HomeBuilding assists groups of 5 to 10 families as they work together to build homes. During the year ended June 30, 2018, Team HomeBuilding participants at the Parkwood Site completed their houses, a development located in Arlington, Washington and infrastructure work continued at the Siegal Site in Sultan, Washington for future development of 10 lots.

Property Management - The Agency self performs property management services for all projects in its multifamily housing portfolio. The property management department is responsible for occupancy, compliance, fiscal management and maintenance at all sites. During the year ended June 30, 2018, households living in Housing Hope facilities (including tax credit properties) totaled 479 in 306 low-income, 167 homeless and 6 emergency shelter units.

Social Services - The Agency provides service enriched permanent affordable housing to help families stabilize, build skills and resources for a better future and ultimately escape poverty. Specific services provided include: family support services, College of Hope adult life skills education program, adult education and employment counseling, and the ChildHope child development program. During the year ended June 30, 2018, the Agency provided emergency shelter to 91 individuals from 26 households and service enriched homeless housing to 721 individuals from 259 households. The College of Hope program provided 5,718 hours of adult life skills education to 836 individuals.

ChildHope - The ChildHope Initiative is comprised of four programs: Tomorrow's Hope Child Development Center, parenting education courses at the College of Hope, Housing Hope's Teen and Young Families Program, and in-home interventions provided by Child and Family Specialists. Each of these programs help homeless and very low-income children recover from early traumas, setting them on the path toward a lifetime of success. During the year ended June 30, 2018, Tomorrow's Hope Child Development Center served 174 children and 171 parents from 124 households. These programs are included in the Social Services column on the consolidated statement of functional expenses.

HopeWorks - HopeWorks provided job training services to 39 homeless or low-income interns in its three social enterprises: GroundWorks, ReNewWorks and CafeWorks. Upon program graduation, 67% of interns had either secured employment or enrolled in continuing education. Interns served in past years are also continuing to thrive. Six months after completing their internship, 92% of past interns reported maintaining their employment or continuing their education.

Please note that the program statistics in Note 1 above are for informational purposes and are unaudited.

Note 2 - Summary of Significant Accounting Policies

The significant accounting policies of the Agency are described below:

Principles of Consolidation - The consolidated financial statements present the accounts of Housing Hope, Housing Hope Properties, Building Credits and HopeWorks. These accounts are consolidated as Housing Hope retains a controlling and economic interest in each of the entities. All significant intercompany transactions and balances have been eliminated.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 2 - Continued

The Agency is the General Partner or Managing Member in a number of low-income housing tax credit entities. The Agency reviewed the applicable guidance under accounting principles generally accepted in the United States of America (U.S. GAAP) and concluded that the Limited Partner or Investing Member possesses substantive participating rights and the Agency retains a minority ownership interest both of which preclude consolidation. The Agency's investment in those limited partnerships and limited liability companies is therefore recorded on the equity method. See Note 16 for further description of the low income housing tax credit entities.

Basis of Presentation - The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with U.S. GAAP. Net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Agency and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations. 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. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Agency reports the support as unrestricted.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met either by actions of the Agency and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be maintained permanently by the Agency.

Use of Estimates - The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated 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 - For reporting purposes, the Agency considers all investments in highly liquid debt instruments with an original maturity of three months or less, to be cash equivalents, excluding those included in the investment portfolio.

Receivables - Accounts, grants and contracts, and pledges receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts, grants and contracts or pledges receivable.

Conditional Contributions and Grants - Conditional contributions and grants are recognized as revenue in the period the conditions have been substantially satisfied. Conditional grants for which conditions had not yet been substantially met totaled approximately \$1,043,907 and \$279,794 at June 30, 2018 and 2017, respectively. The Agency expects to satisfy the conditions contained in these grants over the next two fiscal years.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 2 - Continued

Self-Help Family Loans Receivable - As of June 30, 2018 and 2017, \$523,323 and \$500,281 in self-help family loans, respectively, related to the Team Home Building program. If the related property is sold, the funds are repaid to the Agency at that time.

Investments - Investments in marketable securities with readily determinable fair value are valued at their fair value in the consolidated statement of financial position. Unrealized gains and losses are included in the consolidated statement of activities.

Impairment of Fixed Assets and Real Estate Inventory - The Agency reviews its fixed assets and real estate inventory for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the fair value of the assets.

Nonoperating Versus Operating - For purposes of the consolidated statement of activities, the Agency considers revenue related to the forgivable loan proceeds and amortization, contributions for acquisition of long-term assets and the related releases, the gain or loss on the sale of real estate inventory, impairment of real estate inventory and in-kind contributions of long term assets to be nonoperating activities.

Land, Buildings and Equipment - Land, buildings and equipment purchased by the Agency are recorded at cost. The Agency follows the practice of capitalizing all expenditures for land, buildings and equipment in excess of \$5,000; the fair value of donated fixed assets is similarly capitalized. Depreciation is provided on the straight-line method based upon the estimated useful life of the assets as follows:

Buildings and improvements	27.5 - 40 years
Furniture and equipment	3 - 10 years
Vehicles	3 - 7 years

Financing Costs - Financing costs are recorded as a deduction to the related debt liability on the consolidated statement of financial position. Financing costs are amortized over the term of the applicable debt using the straight-line method. U.S. GAAP requires that the effective yield method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method. Amortization of financing costs is included as a component of interest expense on the consolidated statement of functional expenses.

Real Estate Inventory - As part of normal operations, the Agency purchases land that will be developed as part of the Team HomeBuilding program. This land is recorded at the lower of cost or fair market value. In accordance with U.S. GAAP, impairment losses of \$0 and \$74,565 for the years ended June 30, 2018 and 2017, respectively, were recognized and reported in the consolidated statement of activities.

Federal Income Taxes - Housing Hope and its subsidiaries have been notified by the Internal Revenue Service that they are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income tax is reflected in these consolidated financial statements.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 2 - Continued

Retirement Plan - The Agency sponsors a 403(b) tax deferred annuity plan (the Plan). All employees may participate on a voluntary basis, there is no age or service requirement. Housing Hope's Board of Directors may authorize the Agency to match the employee's contribution, up to a given percentage based on years of service. During the years ended June 30, 2018 and 2017, the Agency contributed \$50,387 and \$38,889, respectively, to the Plan.

In-Kind Contributions - Throughout the year, the Agency receives in-kind contributions from various sources, including supplies and services from construction contractors. During the year ended June 30, 2018, a substantial number of volunteers, including members of the Board of Directors, donated 5,072 hours (unaudited) to the Agency program services and fund-raising campaigns, with an additional 3,458 hours (unaudited) donated on behalf of the Team HomeBuilding building groups. However, only donated services that meet the criteria for recognition under U.S. GAAP are reflected in the accompanying consolidated financial statements and at the fair values at the time of donation. The estimated value of such services is recorded as donated service revenue and as a cost of services, provided either of the following qualifications is met:

- The services received create or enhance nonfinancial assets.
- The services require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

The following in-kind operating contributions were recognized in the consolidated financial statements during the year ended June 30:

	<u>2018</u>	<u>2017</u>
Donated goods and services - Tomorrow's Hope Childcare Center	\$ 6,812	\$ 13,718
Donated goods and services - Administration	15,778	6,865
Donated goods and services - Fundraising	6,064	7,450
Donated goods and services - Housing	800	500
Donated goods, services and long-term assets - HopeWorks	39,890	57,404
Donated goods for resale - ReNewWorks	171,699	140,892
Donated software and hardware - Technology		11,249
Donated goods and services - Social Services and Client Assistance	45,739	108,812
Donated social investor imputed interest	643,467	46,617
	<u>\$ 930,249</u>	<u>\$ 393,507</u>

Allocation of Functional Expenses - The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Vulnerability From Certain Concentrations - The Agency receives fees and grants from federal, state, county, and municipal governments. Approximately 20% and 16% of total unrestricted public support and revenue (not including gains and losses generated by the sale of fixed assets and in-kind donations of long term assets or property) for the years ended June 30, 2018, and 2017, respectively, was received from these grantors. The receipt of governmental funding is subject to audit by various governmental agencies, the outcome of which is not known until the audits are completed. Management is aware of these risks and has contingency plans available.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 2 - Continued

The Agency invests its excess cash and its endowment funds with financial institutions that, at times, may be in excess of the federally insured limits.

Insurance Pool - Housing Hope is a member of the Non-Profit Insurance Program (the Program) which is a property and liability risk and insurance pooling program for Washington nonprofit corporations authorized by the Revised Code of Washington Section 48.62. A board of directors, elected by membership, governs the Program. The Program contracts with a third party administrator to carry out the day-to-day administrative, claims and risk management services. Pursuant to the provisions of the Membership Agreement, each member of the Program shall be contingently liable for the liabilities of the Program in the event the assets or insurance of the Program are not sufficient to cover its liabilities. The Program acquires property, general and auto liability, boiler and machinery, management legal liability, and crime insurance coverage for its members.

The Program acquires excess insurance from its insurance broker, Public Risk Underwriters. Liability coverage is purchased to an overall limit of \$5,000,000 per-occurrence with a self-insured retention of \$50,000. Property insurance is subject to a per-occurrence deductible of \$50,000. Members are responsible for the first \$2,500 of the deductible amount of each claim, while the pool is responsible for the remaining \$47,500. Housing Hope is not insured for equipment, breakdown, earthquake and flood coverages. Any actual or projected deficits of the Program shall be financed through retroactive assessments levied against each regular member of the Program in accordance with a cost allocation methodology that is based on each regular member's contribution or assessments to the Program since inception as a proportion of the total of all contributions or assessments to the Program since inception. A member may withdraw from the Program at the end of the Program's fiscal year provided it has given the Program 90 days written notice of its intent to withdraw. Even after termination, a member is still responsible for contribution to the pool for any unresolved, unreported and in-process claims for the period it was a signatory to the Membership Agreement.

Reclassifications - Certain accounts in the June 30, 2017 financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. These reclassifications had no effect on the change in net assets for the year ended June 30, 2017.

Comparative Totals - The consolidated financial information includes certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Agency's consolidated financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Subsequent Events - The Agency has evaluated subsequent events through January 28, 2019, the date on which the consolidated financial statements were available to be issued.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 3 - Restricted Reserves and Deposits

The Agency is required to maintain cash in certain restricted deposits and funded reserves related to loans outstanding and security deposits held by the Agency's rental properties. All reserves are maintained in the custody of various banks. Restricted reserves and deposits was comprised of the following at June 30:

	<u>2018</u>	<u>2017</u>
Washington Community Reinvestment Association reserves	\$ 168,593	\$ 159,632
Custodial agreement deposits		35,899
Fairview Apartments reserves		54,256
Security deposits	104,407	93,473
Mountain Pacific reserves for Fleming duplexes	13,042	13,036
Banner Bank reserves for Beachwood units	12,496	4,185
	<u><u>\$ 298,538</u></u>	<u><u>\$ 360,481</u></u>

Note 4 - Investments

Investments are presented in the consolidated statement of financial position as follows at June 30:

	<u>2018</u>	<u>2017</u>
Short-term investments	\$ 124,000	\$ 268,000
Assets designated by board for long-term reserves and investment in long-term assets	1,107,646	947,229
Assets restricted by donors for endowments and long-term reserves	1,461,017	1,348,928
	<u><u>\$ 2,692,663</u></u>	<u><u>\$ 2,564,157</u></u>

Interest and investment income consisted of the following for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 65,477	\$ 44,376
Realized and unrealized gains	171,533	226,724
Investment management fees	(12,869)	(18,359)
	<u><u>\$ 224,141</u></u>	<u><u>\$ 252,741</u></u>

Interest and investment income is included in interest and other income in the consolidated statement of activities.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 4 - Continued

Valuation Techniques - U.S. GAAP requires management to measure the fair value of certain assets and liabilities based on observable and unobservable inputs which may fall into one of the three following categories:

Level 1 - Inputs are based on unadjusted quoted market prices for identical assets or liabilities within active markets;

Level 2 - Inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets; or

Level 3 - Inputs are primarily valued using management's assumptions.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used during the year ended June 30, 2018.

Money Market Funds - Money market funds are valued at cost plus accrued interest, which approximates fair value.

Mutual Funds - Valued at quoted market prices in active markets which represent the net asset value (NAV) of shares held by the Agency at year end.

Marketable Equity Securities - Valued at the closing price reported on the active market on which the securities are traded.

HOUSING HOPE AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2018**

Note 4 - Continued

Fair Values Measured on a Recurring Basis - Fair values of assets measured on a recurring basis at June 30, 2018 and 2017, were as follows:

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 125,534	\$ -	\$ -	\$ 125,534
Mutual funds-				
Large cap core	141,965			141,965
Large cap growth	97,565			97,565
Large cap value	148,741			148,741
Small/medium cap core	90,941			90,941
Small/medium cap growth	64,884			64,884
Small/medium cap value	97,645			97,645
International	322,946			322,946
Currency	68,318			68,318
Fixed income	412,027			412,027
Other	168,080			168,080
Total mutual funds	1,613,112			1,613,112
Marketable equity securities-				
Information technology	272,903			272,903
Materials	27,364			27,364
Healthcare	118,281			118,281
Industrial	104,172			104,172
Energy	30,767			30,767
Financial	145,616			145,616
Real Estate	28,257			28,257
Consumer Discretionary	182,761			182,761
Consumer Staples	43,896			43,896
Total marketable equity securities	954,017			954,017
Total June 30, 2018	\$ 2,692,663	\$ -	\$ -	\$ 2,692,663
Total June 30, 2017	\$ 2,564,157	\$ -	\$ -	\$ 2,564,157

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 5 - Pledges Receivable

Pledges receivable at June 30, 2018, are as follows:

Receivable in less than one year	\$	377,878
Receivable in one to five years		<u>207,830</u>
Total pledges receivable		585,708
Less discounts to net present value		(14,276)
Less allowance for uncollectible pledges receivable		<u>(15,296)</u>
Net Pledges Receivable	\$	<u><u>556,136</u></u>

Pledges receivable due in more than one year are discounted at an annual rate of 7% for each additional year through the term of the pledge.

As of June 30, 2018, pledges receivable were reported in the consolidated statement of financial position as follows:

Pledges receivable, current portion	\$	169,324
Pledges receivable, long-term portion		56,441
Assets restricted by donors for investment in long-term assets		328,277
Assets restricted by donors for endowments and long-term reserves		<u>2,094</u>
	\$	<u><u>556,136</u></u>

Note 6 - Board Designated Net Assets

In recognition of the need of working capital for growth, reserves and capital expansion, the Agency has made specific designations of its unrestricted net assets as of June 30, as follows:

	<u>2018</u>	<u>2017</u>
Working capital and other reserves	\$ 264,853	\$ 39,715
Reserve for the replacement or repair of long-term assets	249,607	263,499
Board designated quasi-endowment	<u>2,163,545</u>	<u>2,120,084</u>
	<u><u>\$ 2,678,005</u></u>	<u><u>\$ 2,423,298</u></u>

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 6 - Continued

Assets that were designated by the board for long-term reserves and investment in long-term assets consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Investments and cash	\$ 1,511,022	\$ 1,364,486
	<u><u>\$ 1,511,022</u></u>	<u><u>\$ 1,364,486</u></u>

Note 7 - Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30 are available for the following purposes:

	<u>2018</u>	<u>2017</u>
Reserves for program services	\$ 686,095	\$ 573,343
Acquisition of long-term assets	2,534,236	2,063,746
Endowment Assets (Note 15)	554,621	446,133
Forgivable loans (Note 14)	6,755,452	7,142,989
	<u><u>\$ 10,530,404</u></u>	<u><u>\$ 10,226,211</u></u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. Releases were for the following purposes for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Acquisition of long-term assets	\$ 931,133	\$ 175,826
Reserves for program expenses	1,544,607	1,290,779
Forgivable loan amortization	387,537	237,770
	<u><u>\$ 2,863,277</u></u>	<u><u>\$ 1,704,375</u></u>

Note 8 - Permanently Restricted Net Assets

At June 30, 2018 and 2017, the Agency had \$906,395 and \$902,795, respectively of permanently restricted net assets. The income from the investment of these assets may be used to fund operations. See Note 15 for further disclosure of the Agency's permanently restricted endowment funds.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 9 - Assets Restricted by Donors

Assets that were restricted by donors for endowments and long-term reserves consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Investments and cash	\$ 1,563,604	\$ 1,645,969
Pledges receivable	<u>2,094</u>	<u>5,244</u>
	<u><u>\$ 1,565,698</u></u>	<u><u>\$ 1,651,213</u></u>

Assets that were restricted by donors for the acquisition of long-term assets consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Cash	\$ 1,040,299	\$ 1,851,132
Pledges receivable	<u>328,277</u>	<u>205,445</u>
	<u><u>\$ 1,368,576</u></u>	<u><u>\$ 2,056,577</u></u>

Note 10 - Land, Buildings and Equipment

Land, buildings and equipment at June 30 consisted of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 7,817,744	\$ 8,443,855
Buildings and improvements	37,874,922	37,848,613
Furniture and equipment	1,370,990	1,420,687
Vehicles	<u>231,241</u>	<u>228,594</u>
	47,294,897	47,941,749
Less accumulated depreciation	<u>(12,231,523)</u>	<u>(10,920,994)</u>
Land, Buildings, and Equipment, Net	<u><u>\$ 35,063,374</u></u>	<u><u>\$ 37,020,755</u></u>

Note 11 - Project Development Costs

Predevelopment costs have been incurred for the Twin Lakes Landing II project in Marysville and Possession Sound Properties, a multi-building project located in Everett, Marysville, and Stanwood. The accumulated development costs for the Twin Lakes Landing II and Possession Sound Properties projects at June 30, 2018 were \$1,042,331 and \$50,763, respectively, totaling \$1,093,094.

HOUSING HOPE AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2018**

Note 12 - Short-Term Borrowings

UBS Loan Management Account - The Agency has a \$600,000 loan management account intended for operating needs renewed and available at a variable interest of LIBOR plus 3.63%, resulting in a rate initially set at 4.43% (5.465% at June 30, 2018), with a maturity date due upon demand. At June 30, 2018 and 2017, there was an outstanding balance of \$598,450 and \$351,933, respectively.

Heritage Bank Business Loan - The Agency has a \$750,000 business loan intended for operating needs. The business loan has a variable rate of .50 percentage points over the WSJ Prime Index resulting in a rate initially set at 5.25% (5.50% at June 30, 2018), with a maturity date of February 28, 2019. At June 30, 2018, there was an outstanding balance of \$600,000. This loan was paid in full subsequent to year end, on September 10, 2018.

JP Morgan Chase Bank LOC - During the year ended June 30, 2018, the Agency utilized the LOC for HopeWorks operating needs. The LOC has a variable interest rate of 2.300 percentage points over the Federal Prime Index (7.30% at June 30, 2018), with a maturity date due upon demand. At June 30, 2018 and 2017, there was an outstanding balance of \$93,398 and \$29,106, respectively.

Note 13 - Long-Term Debt

Long-term debt consisted of the following at June 30:

	2018	2017
<u>ACQUISITION AND PREDEVELOPMENT LOANS</u>		
<u>US Bank</u>		
<u>Community Development Investment/EQ2 Loan 0000000026</u>		
Community development equity-equivalent debt investment (EQ2) loan to fund the Housing Opportunity Fund (HOF). Initial unsecured 10-year loan (to 2018) at fixed interest rate of 4% paid quarterly with 5 additional 1-year extensions available on request. This was extended to 2019. (2502)	\$ 150,000	\$ 150,000
<u>Community Frameworks HHP-11-2</u>		
Community Frameworks Self-Help Homeownership Opportunity Program loan to fund eligible expenses of the Hegger Project in Monroe, Washington. 10-year loan secured by deed of trust on real estate with interest at 0%. Loan is forgivable at maturity date of December 29, 2024. (2777T)	105,000	105,000
<u>Community Frameworks HHP-12-1</u>		
Community Frameworks Self-Help Homeownership Opportunity Program loan to fund eligible expenses of the Parkwood Estates Project in Arlington, Washington. 10-year loan secured by deed of trust on real estate with interest at 0%. Loan is forgivable at maturity date of April 1, 2025. (2777U)	210,000	210,000

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 13 - Continued

	<u>2018</u>	<u>2017</u>
<u>Community Frameworks HHP-15-1</u> Community Frameworks Self-Help Homeownership Opportunity Program loan to fund eligible expenses of the Siegel Properties Subdivision in Sultan, Washington. 10-year loan secured by deed of trust on real estate with interest at 0%. Loan is forgivable at maturity date of June 30, 2027. (2777V)	150,000	150,000
<u>HOME/ADDI HCD-10-42-5789-048</u> Mortgage payable secured by real property in original amount of \$88,200, and all payments deferred and principal and interest at 0% to be paid at the end of the program when determined, subject to rent restriction covenant agreement. (2778C)	88,200	88,200
<u>Impact Capital Pre-Development Loan - 2016205</u> Note payable secured by real property "HopeWorks Station II" with interest at 6.50% with monthly payments of accrued interest. Maximum principal amount is \$1,343,823. Principal payments deferred until maturity date of March 31, 2019. Note was paid off May 7, 2018. (2499)		292,940
<u>Northern Trust LOC</u> Long-term unsecured investment bond line of credit with interest at 1%, compounded annually, with interest paid semi-annually on June 30 and December 31 each year. Par Value is due and payable in full on March 9, 2023 along with any unpaid accrued interest. (2414)	1,000,000	
<u>Impact Capital Pre-Development Loan - 2018202</u> Predevelopment loan for expenses associated with the predevelopment of the Possession Sound Properties project, a rehabilitation of 58 affordable rental units currently owned by Housing Hope. The maximum amount of the loan is \$85,000 with interest at 0% and outstanding balance due on April 1, 2021. (2416)	38,212	
AVANTI HOUSE		
<u>State of Washington - OCD HAP 5-92-410-32B</u> Mortgage payable secured by real property "Avanti House" with principal and interest at 0% deferred until 2043 and payments based on cash flow schedule subject to a low-income housing agreement. (2720)	194,653	194,653
BEACHWOOD		
<u>Banner Bank</u> Mortgage payable to Banner Bank in the original amount of \$460,000; secured by a first deed of trust on the real property, assignment of rents and security interest in personal property; payable in monthly installments of \$2,945, including interest at 6.625%; matures January 1, 2029. (2750A)	268,370	285,322

HOUSING HOPE AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2018**

Note 13 - Continued

	<u>2018</u>	<u>2017</u>
<u>State of Washington Department of Commerce</u> <u>From Housing Finance Unit funds</u> Note payable in the original amount of \$190,000; secured by deed of trust on real estate, subject to a low-income housing covenant. Annual payments of \$4,847 including interest at 1%, and due in full in 2048. (2762A)	128,662	132,188
<u>State of Washington Department of Commerce</u> <u>From HOME Program fund. Tier B</u> Note payable in the original amount of \$210,000 secured by a deed of trust on real estate subject to a low-income housing covenant. Interest at 1% accrued until December 31, 2004, balance then amortized over 45 years. Annual payments of \$6,115, including interest at 1%, through maturity at December 31, 2048. (2762B)	162,302	166,749
<u>Snohomish County</u> <u>From HOME Program fund 1997 #7</u> Note payable in the original amount of \$375,000, secured by deed of trust on real property; noninterest bearing and subject to a rent restriction covenant. Note was amended March 2011 to have the option to forgive principal and interest at maturity, January 2049, provided the Agency remains in compliance with provisions of the note and HOME agreement. (2710E)	375,000	375,000
COMMERCE BUILDING		
<u>Washington Community Reinvestment Association - (WCRA) 2-090323</u> Mortgage payable secured by real property "Commerce Building," original amount of \$880,000, 6.625% interest, monthly principal and interest payments of \$5,635 through May 1, 2035. (2725J)	780,738	796,076
<u>State of Washington Department of Commerce - HAP 5-93-491-9A</u> Mortgage payable secured by real property "Commerce Building," 0% interest, annual principal payments of \$11,900 through March 1, 2045 to be paid from available cash. (2725A)	333,200	345,100
<u>Snohomish County - OCHD AHTF 5-93-491-94</u> Mortgage payable secured by real property "Commerce Building," 0% interest, due and payable in full November, 2043. Subject to low-income housing covenant. (2725B)	75,000	75,000
<u>Snohomish County - HOME 1993 #3</u> Mortgage payable secured by real property "Commerce Building," 7.69% interest. Principal and interest due and payable in full October 4, 2035. Subject to HOME agreement. (2725G)	165,200	165,200

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 13 - Continued

	<u>2018</u>	<u>2017</u>
<u>City of Everett CDBG</u> Mortgage payable secured by real property "Commerce Building," 0% interest, due and payable in full November 14, 2044. (2725H)	50,000	50,000
<u>City of Everett CHIP</u> <u>Commerce Building Rehab - Windows</u> Note payable secured by real property "Commerce Building," with all payments deferred and principal and interest at 3% due and payable November 14, 2044. (2725C)	389,870	389,870
<u>City of Everett</u> <u>Energy EECBG/ARRA Commerce Building</u> Note payable secured by real property "Commerce Building," with all payments deferred and principal and interest at 3% due and payable November 14, 2044. (2725E)	90,000	90,000
<u>City of Everett CHIP</u> <u>Energy EECBG/ARRA Commerce Building - Loan 54167</u> Note payable secured by real property "Commerce Building," with all payments deferred and principal and interest at 3% due and payable November 14, 2044. (2726)	395,147	395,147
CROSSROADS		
<u>State of Washington Department of Commerce - AHP 5-92-492-02B</u> Note payable secured by real property "Crossroads" with all payments deferred and principal and interest at 0% due and payable in 2025 subject to low-income housing agreement. (2730B)	125,000	125,000
FAIRVIEW APARTMENTS		
<u>Peoples Bank: WSHFC #5042423-201 Nonprofit Housing Revenue Bond</u> Privately placed bond secured by real property "Fairview Apartments" with interest at 2.98% payable in 360 monthly payments of \$5,498 beginning June 30, 2016 through June 1, 2036, and then equal monthly payments with interest at the Adjusted Variable Note Rate through maturity date of June 1, 2046. (2789D)	1,245,154	1,273,045
<u>Peoples Bank Loan 5042423-202</u> Note payable secured by real property "Fairview Apartments" with interest at 4.18% payable in 60 monthly payments of \$556 beginning June 30, 2016 through May 30, 2021. (2789E)	18,267	24,028
<u>Housing Authority of Snohomish County</u> Note payable secured by real property "Fairview Apartments" with simple interest at 1% accruing until May 31, 2031. Then monthly payments of \$21,016 principal and interest through April 30, 2046 with balloon payment due May 31, 2046. (2789I)	542,370	542,370

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 13 - Continued

	<u>2018</u>	<u>2017</u>
FLEMING DUPLEXES		
<u>City of Everett CHIP</u> Note payable secured by real property "Hope Village Duplexes" with all payments deferred and principal and interest at 3% due and payable on August 10, 2027 subject to use as transitional housing. (2604D)	45,183	45,183
<u>Mountain Pacific Bank 129004711</u> Note payable secured by real property "Hope Village Duplexes" due in monthly payments of \$2,618 including principal and interest at 4.5% with a balloon payment of unpaid balance of principal and interest due on February 8, 2042. (2604M)	456,308	467,149
HOPE VILLAGE		
<u>Opus Bank 5303050211</u> Assigned mortgage payable in the original amount of \$800,000, interest of 6.7%, monthly installments of principal and interest in the amount of \$6,267 are payable through November 2017, secured by deed of trust on the real property. Mortgage was paid in full in fiscal year 2018. (2745C)		29,727
<u>Washington State Department of Commerce - HAP 96-493-201</u> Assigned note payable in the original amount of \$450,000, noninterest bearing, principal payments of \$15,000 due annually beginning December 31, 1998 for next 29 years, matures December 31, 2028, terms are in effect to December 31, 2047, collateralized by investment in real estate. (2745S)	150,000	165,000
<u>City of Everett CDBG</u> Assigned note payable under the Community Development Block Grant Program, noninterest bearing, principal due upon maturity at November 2027, collateralized by investment in real estate. (2745A)	133,000	133,000
<u>City of Everett CDBG</u> Assigned note payable under the Community Development Block Grant Program, noninterest bearing, principal due upon maturity at November 2027, collateralized by investment in real estate. (2745B)	100,200	100,200
<u>Snohomish County HUD</u> Assigned note payable under the HUD Supportive Housing Loan program, noninterest bearing, principal due upon maturity at November 2047, collateralized by investment in real estate. (2745E)	400,000	400,000
<u>Snohomish County OCHD HOME</u> Assigned note payable under the HUD HOME Investment Partnerships Program, noninterest bearing, principal due upon maturity at November 2047, collateralized by investment in real estate. (2745D)	289,000	289,000

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 13 - Continued

	<u>2018</u>	<u>2017</u>
<u>Snohomish County Housing Trust Fund</u>		
Assigned note payable, noninterest bearing, principal due upon maturity at November 2047, collateralized by investment in real estate. (2745F)	154,800	154,800
HOPEWORKS SOCIAL INVESTORS		
Collateral backed notes secured by real property "HopeWorks Station", quarterly interest only payments at an annual rate of 2% for 3 years and increasing to 3% thereafter until the maturity date, principal payable in full at maturity through April 2021, five years after the due date of the first interest payment. Notes, including accrued interest, paid in full or renegotiated to notes below on April 24, 2018.		1,715,000
Collateral backed notes secured by real property "HopeWorks Station", interest only payments made annually at the rate of 2% for 3 years, increasing to 3% for the next 2 years, and increasing to 4% until the maturity date of July 1, 2025 when the principal balance, along with any unpaid interest, is due and payable. A present value discount of \$567,445 has been recognized and reported at June 30, 2018, on the social investor notes due to the below market interest rate loans. (2648)	2,544,000	
<u>Howarth Trust</u>		
Collateral backed note secured by real property "HopeWorks Station", interest only payments made annually at the rate of 2% for 3 years, increasing to 3% for the next 2 years, and increasing to 4% until the maturity date of July 1, 2025 when the principal balance, along with any unpaid interest, is due and payable. (2647)	200,000	
HOPEWORKS STATION		
<u>Enterprise Community Loan Fund, Inc.</u>		
Note payable secured by Leasehold Deed of Trust in real property "3311 Broadway Ave, Everett, WA", in addition to an unconditional guaranty of payment by Housing Hope. Interest only payments at 5.85% payable monthly. Principal and interest due in full on May 31, 2020. (2789K)	4,207,983	
KENNEDY COURT		
<u>CITY OF EVERETT/SNOHOMISH COUNTY HOME LOAN</u>		
Note payable secured by deed of trust on real property "Kennedy Court Apartments, Everett, WA" with all payments deferred and principal and interest at 3.0% to be paid at the completion of the term of the Amended HOME Loan Agreement on September 30, 2055. (2655B)	573,298	409,037

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 13 - Continued

	<u>2018</u>	<u>2017</u>
LERVICK FAMILY VILLAGE		
<u>Opus Bank - 50-0130628281</u> Note payable secured by real property "Lervick Family Village" due in monthly installments including principal and interest at a variable rate set annually, at 3% over the 12th District Savings Institutions Cost of Funds Index, and with a maturity date of February 1, 2026. The current monthly payment is \$460 at a rate of 3.63%. (2770F)	36,534	40,636
<u>State of Washington Department of Commerce - HAP 5-94-491-7A</u> Note payable secured by real property "Lervick Family Village" with annual principal payments of \$6,760 only and interest at 0% until 2047 subject to low-income housing agreement. (2770B)	196,040	202,800
LINCOLN HILL VILLAGE		
<u>Snohomish County OCHD HOME</u> Note payable secured by real property "Lincoln Hill Village" with all payments deferred and principal and interest at 1% until 2030 then monthly payments of \$2,737 until December 2050. (2520D)	656,842	656,842
<u>State of Washington Department of Commerce - 07-47104-007</u> Note payable secured by real property "Lincoln Hill Village" with \$462,000 deferred until 2018 then annual payments of \$14,000 and \$1,393,654 deferred until 2041 then quarterly payments of \$34,841. All principal and interest at 0% due at December 2051. (2520S)	1,855,654	1,855,654
<u>Washington Community Reinvestment Association - (WCRA) 1-100337</u> Mortgage payable secured by real property "Lincoln Hill Village," original amount \$1,975,000, 7% interest, monthly principal and interest payments of \$13,140 through June 1, 2042. (2520A)	1,830,658	1,859,099
MAPLE LEAF MEADOWS		
<u>State of Washington Department of Commerce - 02-49300-074</u> Note payable secured by real property "Maple Leaf Meadows" with all payments deferred for 25 years with interest at 3% accruing during the deferral period, maturing November 1, 2047. The principal amount including accumulated interest to be amortized for 10 years with interest at 3% with annual payments of \$98,182 beginning 2027 and ending 2047 subject to a low-income housing agreement. (2602C)	400,000	400,000

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 13 - Continued

	<u>2018</u>	<u>2017</u>
<u>JP Morgan Chase Bank</u> <u>99-04291493-7 EHA Low-Income Housing Revenue Bond, 2011</u> Secured by Deed of Trust to JP Morgan Chase Bank on "Maple Leaf Meadows" property. Due in monthly installments of \$10,097 including principal and interest at 5.29%, with a balloon payment due June 2022. (2602E)	1,250,725	1,303,236
MT. BAKER VIEW		
<u>BBCN Bancorp</u> <u>WSHFC #504 STEP Bond - Series 2010</u> Bond secured by real property "Mt. Baker View" due in monthly installments including principal and interest at 4.5%, fiscal agent fees of \$500 per year, and bond issuer fees at .25% calculated annually on the principal balance at July 1st. Current monthly payment including fees is \$6,633. The fiscal agent is U.S. Bank and the bond is privately placed. Maturity date October 1, 2040. (2540B)	1,069,689	1,096,897
NEW CENTURY VILLAGE & EXPANSION		
<u>State of Washington Department of Commerce - 02-49300-075</u> Note payable secured by real property "New Century House" with all payments deferred for 25 years with interest at 3% accruing during the deferral period. The principal amount including deferred interest will be amortized for 10 years with annual payments of \$55,227 due and payable on June 1 beginning 2028 and ending 2037 subject to use as transitional and permanent affordable housing for homeless teen mothers. (2601C)	225,000	225,000
<u>JP Morgan Chase Bank</u> <u>99-04291494-5 - EHA Low-Income Housing Revenue Bond, 2011</u> Original amount of \$700,000 secured by Deed of Trust to JP Morgan Chase Bank on "New Century House" property. Due in monthly installments of \$3,884 including principal and interest at 5.29%, with a balloon payment due June 2022. (2601E)	483,548	495,586
<u>City of Everett - 2060 HTF Aspenwood</u> Note payable secured by real property "2503 Howard - Condo unit #2" with all payments deferred and principal and interest at 3% due September 27, 2031, subject to a very low-income use provision. (2600E)	200,000	200,000
OAKES AVENUE COMMONS		
<u>City of Everett - CDBG #1</u> Note payable secured by real property "3129 Oakes Avenue" with all payments deferred and principal and interest at 3% due December 31, 2028, subject to a very low-income use provision. (2730)	38,918	38,918

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 13 - Continued

	<u>2018</u>	<u>2017</u>
<u>State of Washington Department of Commerce - 02-49300-075</u> Note payable secured by real property "Oakes Avenue Commons" with all payments deferred for 25 years with interest at 0% and a maturity date of June 30, 2050. (2745)	669,841	669,841
PARK PLACE TOWNHOMES		
<u>Mountain Pacific Bank</u> <u>WSHFC #504 STEP Bond - Series 2010</u> Note payable in the original amount of \$1,200,000 secured by real property "Park Place Townhomes" due in monthly payments of \$5,904 including principal and interest at 4%. Maturity date is September 1, 2041. (2789B)	1,041,043	1,067,681
PILCHUCK PLACE AND WOODS CREEK VILLAGE		
<u>State of Washington Department of Commerce - HTF 11-47104-005</u> Note payable secured by real property "Woods Creek Village" with all payments deferred until 2043 with interest at 1% compounding quarterly during the deferral period. The principal amount including deferred interest will be amortized for 10 years with quarterly payments of \$17,745 due and payable beginning June 30, 2043 and ending March 31, 2053. (2781B)	500,000	500,000
<u>Snohomish County - HOME HCS 12-42-1201-251</u> Note payable in the original amount of \$600,000 secured by real property "Pilchuck Place Townhomes" with all payments deferred until 2043 with interest accruing during the deferral period at 1%. Monthly payments in an amount to be determined by September 1, 2043, when payments begin, until September 2052. (2782A)	600,000	600,000
<u>Snohomish County - HOME HCS 12-42-1104-251</u> Note payable in the original amount of \$532,641 secured by real property "Woods Creek Village" with all payments deferred until 2043 with interest accruing during the deferral period at 1%. Monthly payments in an amount to be determined by September 1, 2043, when payments begin, until September 2052. (2782B)	532,641	532,641
<u>Washington Community Reinvestment Association</u> <u>(WCRA) B-120364 Nonprofit Housing Revenue Bond, Series 2012</u> Note payable in the original amount of \$1,713,769 secured by real property "Pilchuck Place Townhomes" and "Woods Creek Village Apartments" due in monthly payments of \$9,331 including principal and interest at 5.125%. Maturity date is September 1, 2042. (2783A and 2783B)	1,552,713	1,584,230

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 13 - Continued

	<u>2018</u>	<u>2017</u>
TOMORROW'S HOPE		
<u>Bank of America</u> <u>#003140373 - WSHFC OID#02-01 STEP Bond</u> Original amount of \$860,000 secured by Deed of Trust to Bank of America on "Tomorrow's Hope Childcare Center" property. Due in monthly installments of \$4,496 including principal and interest at 2.708% maturing April 1, 2027. (2752C)	427,398	465,965
<u>CITY OF EVERETT CDBG</u> Note payable secured by real property "Tomorrow's Hope" with all payments deferred and principal and interest at 3% due at maturity date of January 14, 2031. The loan may be forgiven 100% on January 14, 2031 as long as the project continues to operate. (2789J)	45,432	45,432
TWIN LAKES LANDING		
<u>State of Washington Housing Finance Commission - LAP 2013-27</u> Note payable secured by real property "Twin Lakes Landing II" with all payments deferred and principal and interest at 1% due and payable at the maturity date of October 31, 2021. (2607)	708,525	708,525
VISION HOUSE		
<u>State of Washington Department of Commerce - HFU 98-49300-484</u> Note payable secured by real property "Vision House" with annual principal payments of \$169 only with interest at 0% until 2049 subject to a low-income housing agreement. (2575A)	5,227	5,396
WINTER'S CREEK VILLAGE		
<u>Opus Bank Loan 5305021083</u> Note payable secured by real property "Sultan 11." Repayment of principal and interest at 6% due in monthly installments of \$3,194 with a balloon payment of unpaid balance of principal and interest due on October 5, 2026. (2788B)	430,462	442,563
<u>Opus Bank Loan 5307032435</u> Note payable secured by real property "Sultan 11." Repayment of principal and interest at 6% due in monthly installments of \$1,560 with a balloon payment of unpaid balance of principal and interest due on October 5, 2026. (2788D)	210,197	216,114

HOUSING HOPE AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2018**

Note 13 - Continued

	<u>2018</u>	<u>2017</u>
<u>State of Washington Department of Commerce - HTF 05-49300-109</u>		
Note payable secured by real property "Sultan 11" with all payments deferred and principal and interest at 0% due and payable in 2045. (2788S)	275,000	275,000
<u>Opus Bank loan 5305021082</u>		
Note payable secured by real property "Sultan 5-plex" with interest at 5.81% payable in 239 monthly payments of \$1,584 beginning June 5, 2005 and a balloon payment of unpaid balance of principal and interest due on May 5, 2025. (2787A)	<u>202,465</u>	<u>209,325</u>
Total	31,778,669	26,026,365
Less current portion	(401,136)	(2,128,264)
Less present value discount	(567,445)	(90,057)
Less unamortized deferred financing fees	<u>(121,622)</u>	<u>(40,965)</u>
Long-Term Debt, Net	<u>\$ 30,688,466</u>	<u>\$ 23,767,079</u>

Principal maturities are as follows:

For the Year Ending June 30,

2019	\$ 401,136
2020	5,043,973
2021	591,337
2022	1,124,458
2023	1,435,761
Thereafter	<u>23,182,004</u>
	<u>\$ 31,778,669</u>

The Agency has multiple very low interest or noninterest bearing notes held by governmental agencies. If reported, the in-kind contributions and mortgage interest expenses related to these notes would have been approximately \$382,000 and \$374,000 for the years ended June 30, 2018 and 2017, respectively. There is no impact on earnings or on ending net assets as a result of the use of this accounting method. The Agency has elected not to recognize the in-kind contribution on these notes as interest rates are set by the governmental agencies and are representative of the conditions placed on the related notes, resulting in the interests rates not being considered below market due to the additional conditions.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 14 - Forgivable Loans

The Agency received cumulative forgivable loan proceeds of \$10,997,195 through the years ended June 30, 2018. Under terms of the agreements, the facilities funded by these proceeds must be used to continue the mission of the Agency and provide housing for low to very-low income individuals for periods of time expiring through 2066. The forgivable loans are secured by properties at those sites. As management believes the conditions related to these loans are being met and are likely to continue to be met, the proceeds from these forgivable loans have been recognized as temporarily restricted contributions (Note 7). The restricted balances are being released over the terms of the agreements. The full original proceeds are due on demand and in some cases the funders' prorated share of accumulated appreciation would also be due should the Agency sell the property or fall out of compliance with the specified use restriction. As of June 30, 2018, the Agency is in compliance with the restrictions. During the year ended June 30, 2015, the Agency was notified by Community Frameworks that while their loans are forgivable, their intent was to treat these forgivable loans as long-term debt and not as a contribution. Accordingly per agreement with Community Frameworks, the Agency is now reporting all new forgivable loans from Community Frameworks as long term debt and any previous forgivable loans recognized as contributions have ceased release of these restrictions until maturity date in accordance with donor wishes.

Forgivable loans are as follows at June 30:

	<u>2018</u>	<u>2017</u>
ARLINGTON		
<u>State of Washington Department of Commerce</u> <u>HTF HAP 2-92-410-8A</u>		
Note payable secured by real property "Arlington," with original amount of \$120,000 and all payments deferred and principal and interest at 0% to be forgiven in 2018 subject to a low-income housing agreement. (2710A)F	\$ 1,788	\$ 6,588
FAIRVIEW		
<u>Snohomish County</u> <u>SCHSD HOME HCD-10-42-1003-113(1)</u>		
Note payable secured by real property "Fairview", the original amount of \$494,933 and all payments deferred and principal and interest at 0% to be forgiven in 2051 subject to the HOME agreement. (2789G)F	379,306	390,830
<u>State of Washington</u> <u>Department of Commerce 06-94100-055</u>		
Note payable secured by real property "Fairview", the original amount of \$850,000 and all payments deferred and principal and interest at 0% to be forgiven in 2047 subject to use restriction covenant agreement. (2789H)F	646,102	668,445

HOUSING HOPE AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2018**

Note 14 - Continued

	<u>2018</u>	<u>2017</u>
<u>State of Washington</u> <u>Department of Commerce 06-94100-055</u> Note payable secured by real property "Fairview", the original amount of \$950,000 and all payments deferred and principal and interest at 0% to be forgiven in 2061 subject to use restriction covenant agreement. (2789F)F	738,678	755,890
HOMEOWNERSHIP ASSISTANCE		
<u>State of Washington Department of Commerce</u> <u>Homeownership Assistance 08-94100-010</u> Total \$500,000 available, consisting of \$440,000 down payment assistance, \$10,000 administrative and monitoring fees, and 10% developer fee at each draw (\$50,000 maximum). Original amount (less applicable fees) was \$387,630. Agency will also earn 10% admin fee on repayments from the homeowners, with remaining repaid funds to be recycled. 0% interest. Forgivable January 31, 2035. (2778)F	283,896	304,316
HOPE VILLAGE II		
<u>State of Washington</u> <u>OCD 02-49300-129 (HFT #2)</u> Note payable secured by real property "Hope Village II" with original amount of \$130,000 and all payments deferred and principal and interest at 0% to be forgiven in 2043 subject to a use restriction covenant agreement. (2604A)F	81,330	84,580
LERVICK FAMILY VILLAGE		
<u>Snohomish County</u> <u>OCHD CDBG H&CD 1993#18</u> Mortgage payable secured by real property "Lervick Family Village" with original amount of \$90,000 and all payments deferred and principal and interest at 0% to be forgiven in 2045 subject to use as transitional housing. (2770D)F	47,451	49,251
<u>Snohomish County</u> <u>OCHD HOME 1992#9 1993#7 & 1994#5</u> Mortgage payable secured by real property "Lervick Family Village" with original amount of \$285,196 and all payments deferred and principal and interest at 0% to be forgiven in 2045 subject to use as transitional housing. (2770CG&H)F	157,022	162,726

HOUSING HOPE AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2018**

Note 14 - Continued

	<u>2018</u>	<u>2017</u>
<u>Snohomish County</u> <u>OCHD CDBG H&CD 1989#37</u> Mortgage payable secured by real property "Lervick Family Village" with original amount of \$85,000 and all payments deferred and principal and interest at 0% to be forgiven in 2045 subject to use as transitional housing. (2770E)F	46,515	48,215
<u>Snohomish County</u> <u>OCHD HOME 1997#12</u> Mortgage payable secured by real property "East Stanwood Pioneer Homes" with original amount of \$50,000 and all payments deferred and principal and interest at 0% to be forgiven in 2052 subject to HOME agreement. (2515A)F	34,022	35,022
LINCOLN HILL VILLAGE		
<u>Snohomish County</u> <u>OCHD AHTF HCD-08-11-0803-048</u> Note payable secured by real property "Lincoln Hill Village" all payments deferred and principal and interest at 0% to be forgiven 40 years after the project is placed in service (June 2011), subject to use as affordable housing for very low-income households. Original amount was \$695,928. (2520C)F	421,446	435,365
MAPLE LEAF MEADOWS		
<u>Snohomish County</u> <u>OCHD HOME 2001#4 and 2002#4</u> Note payable secured by real property "Maple Leaf Meadows" with original amount of \$460,000 and all payments deferred and principal and interest at 0% to be forgiven in 2051 subject to a use restriction covenant agreement. (2602D)F	308,187	317,387
MT. BAKER VIEW		
<u>Snohomish County</u> <u>Neighborhood Stabilization Program (NSP-1) Loan</u> Mortgage payable secured by real property "Mount Baker View" with original amount of \$1,084,314 and all payments deferred and principal and interest at 0% to be forgiven in 2050 subject to use as transitional and permanent housing. (2540C)F	874,952	902,060

HOUSING HOPE AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2018**

Note 14 - Continued

	<u>2018</u>	<u>2017</u>
NEW CENTURY EXPANSION		
<u>Snohomish County</u> <u>OCHD HOME 2000#6</u> Note payable secured by real property "New Century House" with original amount of \$238,000 and all payments deferred and principal and interest at 0% to be forgiven in 2051 subject to use as HOME assisted units. (2601D)F	159,180	163,940
<u>City of Everett</u> <u>CDBG New Century</u> Note payable secured by real property "New Century House" with original amount of \$160,000 and all principal and interest of 3% simple to be forgiven in 2026 subject to use as transitional housing. (2601G)F	52,480	58,880
<u>City of Everett</u> <u>HOME New Century Expansion</u> Note payable secured by real property "6529 Broadway" with original amount of \$100,000 and all payments deferred and principal and interest at 3% to be forgiven in 2028 subject to HOME rent restriction covenant agreement. (2581)F	39,726	43,726
<u>City of Everett</u> <u>CDBG New Century Village</u> Note payable secured by "New Century Village" at 3% with original amount of \$174,367 and all principal and interest to be forgiven on January 18, 2031 subject to use as housing for low and moderate income households. (2586E)F	87,652	94,626
<u>Snohomish County</u> <u>AHTF Aspenwood</u> Note payable secured by real property "2503 Howard" with original amount of \$278,100 and all payments deferred and principal and interest at 0% to be forgiven in 2047 subject to a use restriction covenant agreement. (2600C)F	196,803	203,756
OAKES AVENUE COMMONS		
<u>Snohomish County</u> <u>OCHD HOME 99-03</u> Mortgage payable secured by real property "Oakes Avenue Commons" with original amount of \$230,000 and all payments deferred and principal and interest at 0% to be forgiven in 2020 subject to rent restriction covenant agreement. (2780A)F	20,259	31,759

HOUSING HOPE AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2018**

Note 14 - Continued

	<u>2018</u>	<u>2017</u>
PARK PLACE TOWNHOMES		
<u>Snohomish County</u> <u>Neighborhood Stabilization Program (NSP-1) Loan</u> Mortgage payable secured by real property "Park Place Townhomes" with original amount of \$1,050,000 and all payments deferred and principal and interest at 0% to be forgiven in 2051 subject to rent restriction covenant agreement. (2789C)F	870,493	896,743
SHOP LOANS		
<u>Community Frameworks SHOP</u> <u>Self-Help Homeownership Project HHP-05</u> Note payable with loan agreement at 0% interest secured by 26 lots of real property "Self-Help Copper Station" with original amount of \$150,000. Funds were repaid with the sale of the Copper Station lots to the Team HomeBuilding families and deposited in a designated Housing Hope revolving fund account for re-use on eligible activities. One-third of the loan was forgiven in fiscal year 2011. The balance was forgiven in 2018. (2777C)F		57,616
<u>Community Frameworks SHOP</u> <u>Self-Help Homeownership Project HHP-06</u> Note payable with loan agreement at 0% interest secured by 26 lots of real property "Self-Help Copper Station" with original amount of \$240,000 (HHP-06-01) and \$75,000 (HHP-07-01). Funds were repaid with the sale of the Copper Station lots to Team HomeBuilding families and deposited in a designated Housing Hope revolving fund account for re-use on eligible activities. One-third of the loan may be forgiven at the end of the applicable HUD funding cycle. The balance was forgiven in 2018. (2777C)F		93,107
<u>Community Frameworks SHOP</u> <u>Self-Help Homeownership Project HHP-07-1</u> Note payable with loan agreement at 0% interest secured by 9 lots of real property "Copper Station" with original amount of \$135,000. Funds were repaid with the sale of the Copper Station lots to Team HomeBuilding families and deposited in a designated Housing Hope revolving fund account for re-use on eligible activities. One-third of the loan may be forgiven at the end of the applicable HUD funding cycle. The balance may be forgiven in 2019 contingent on compliance with eligible purposes in the homeownership program. (2777D)F	72,789	72,789

HOUSING HOPE AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2018**

Note 14 - Continued

	2018	2017
<u>Community Frameworks SHOP</u>		
<u>Self-Help Homeownership Project HHP-08-01</u>		
Note payable with loan agreement at 0% interest secured by 14 lots of real property "Marvin Gardens" with original amount of \$210,000. Funds to be repaid with the sale of the Marvin Gardens lots to Team HomeBuilding families and deposited in a designated Housing Hope revolving fund account for re-use on eligible activities. One-third of the loan may be forgiven at the end of the applicable HUD funding cycle. The balance may be forgiven in 2020 contingent on compliance with eligible purposes in the homeownership program. (2777P)F	134,227	134,227
<u>Community Frameworks SHOP</u>		
<u>Self-Help Homeownership Project HHP-08-02</u>		
Note payable with loan agreement at 0% interest secured by 10 lots of real property "Rose Park" with original amount of \$150,000. Funds to be repaid with the sale of the Rose Park lots to the Team HomeBuilding families and deposited in a designated Housing Hope revolving fund account for re-use on eligible activities. One-third of the loan may be forgiven at the end of the applicable HUD funding cycle. The balance may be forgiven in 2021 contingent on compliance with eligible purposes in the homeownership program. (2777R)F	102,781	102,781
<u>Community Frameworks SHOP</u>		
<u>Self-Help Homeownership Project HHP-09</u>		
Note payable with loan agreement at 0% interest secured by 10 lots of real property "French Creek" with original amount of \$150,000. Funds to be repaid with the sale of the French Creek lots to the Team HomeBuilding families and deposited in a designated Housing Hope revolving fund account for re-use on eligible activities. One-third of the loan may be forgiven at the end of the applicable HUD funding cycle. The balance may be forgiven in 2022 contingent on compliance with eligible purposes in the homeownership program. (2777F)F	95,836	95,836
<u>Community Frameworks SHOP</u>		
<u>Self-Help Homeownership Project HHP-10-1</u>		
Note payable with loan agreement at 0% interest secured by 13 lots of real property "Monroe Main Street" with original amount of \$195,000. Funds to be repaid with the sale of the Monroe Main Street lots to the Team HomeBuilding families and deposited in a designated Housing Hope revolving fund account for re-use on eligible activities. One-third of the loan may be forgiven at the end of the applicable HUD funding cycle. The balance may be forgiven in 2023 contingent on compliance with eligible purposes in the homeownership program. (2777S)F	175,500	175,500

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 14 - Continued

	<u>2018</u>	<u>2017</u>
TOMORROW'S HOPE		
<u>City of Everett</u> <u>CDBG Tomorrow's Hope</u> Promissory note secured by real property "Tomorrow's Hope" with original amount of \$55,900 and all payments deferred and principal and interest at 3% simple to be forgiven in 2026 subject to use as childcare facility for low and moderate income families. (2752A)F	18,335	20,571
<u>Snohomish County</u> <u>OCHD CDBG-F 2001#33</u> Mortgage payable secured by real property "Tomorrow's Hope" with original amount of \$100,000 and all payments deferred and principal and interest at 0% to be forgiven in 2021 subject to use as childcare facility to benefit low-income families. (2752B)F	15,890	20,890
VISION HOUSE		
<u>Snohomish County</u> <u>OCHD HOME 1994#8</u> Mortgage payable secured by real property "Vision House" with original amount of \$108,773 and all payments deferred and principal and interest at 0% to be forgiven in 2046 subject to use as permanent affordable rental housing. (2570A)F	61,700	63,875
<u>Snohomish County</u> <u>OCHD CDBG H&CD 1994#14</u> Mortgage payable secured by real property "Vision House" with original amount of \$30,000 and all payments deferred and principal and interest at 0% to be forgiven in 2039 subject to use as permanent affordable rental housing. (2572A)F	14,565	15,241
WINTER'S CREEK VILLAGE		
<u>Snohomish County</u> <u>AHTF 2003#3 Sultan New Construction</u> Notes payable secured by real property "Sultan 11", with original amount of \$254,281 and all payments deferred and principal and interest at 0% to be forgiven in 2046 subject to use as affordable housing for very low income households. (2788C)F	175,088	181,445

HOUSING HOPE AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2018**

Note 14 - Continued

	<u>2018</u>	<u>2017</u>
<u>Snohomish County</u>		
<u>OHCD AHTF 2003#3</u>		
Note payable secured by real property "Sultan 5-plex" with original amount of \$76,875 and all payments deferred and principal and interest at 0% to be forgiven in 2045 subject to use as low-income housing. (2787C)F	51,638	53,560
 <u>State of Washington</u>		
<u>Department of Commerce HTF 05-49300-110</u>		
Note payable secured by real property "Sultan 5-plex" with original amount of \$75,000 and all payments deferred and principal and interest at 0% to be forgiven on May 31, 2045 subject to use as 2 units of permanent rental housing and 3 units of transitional housing for low-income homeless families with children. (2787B)F	50,517	52,392
 <u>State of Washington</u>		
<u>Department of Commerce HTF 11-47104-005</u>		
Note payable secured by real property "Woods Creek Village" with original amount of \$400,000 and all payments deferred and principal and interest at 0% to be forgiven on March 31, 2053 subject to use as low-income housing. (2781A)F	339,298	349,054
 Total Forgivable Loans Temporarily Restricted Balance	 <u>\$ 6,755,452</u>	 <u>\$ 7,142,989</u>

Note 15 - Endowments

The Agency's endowments consist of funds established for a variety of purposes. Its endowments include both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments (quasi-endowments). Net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The Board of Directors of the Agency has interpreted the Washington State Prudent Management of Institutional Funds Act (PMIFA) as making it advisable for the Agency to track the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Agency classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 15 - Continued

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Agency in a manner consistent with the standard of prudence prescribed by PMIFA. In accordance with PMIFA, the Agency considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the organization and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Agency; and
- The investment policies of the Agency.

As of June 30, endowment net assets consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 554,621	\$ 906,395	\$ 1,461,016
Board designated quasi-endowment funds	<u>2,163,545</u>			<u>2,163,545</u>
Endowment Net Assets, June 30, 2018	<u>\$ 2,163,545</u>	<u>\$ 554,621</u>	<u>\$ 906,395</u>	<u>\$ 3,624,561</u>
Endowment Net Assets, June 30, 2017	<u>\$ 2,120,084</u>	<u>\$ 446,133</u>	<u>\$ 902,795</u>	<u>\$ 3,469,012</u>

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 15 - Continued

Changes to endowment net assets for the year ended June 30, 2018, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2017	\$ 2,120,084	\$ 446,133	\$ 902,795	\$ 3,469,012
Endowment investment return-				
Interest and dividends	53,853	11,624		65,477
Realized and unrealized gains	75,166	96,367		171,533
Total endowment investment return	129,019	107,991		237,010
New contributions	35,310	2,250	3,600	41,160
Appropriation of endowment for expenditure	(120,868)	(1,753)		(122,621)
Endowment net assets, June 30, 2018	2,163,545	554,621	906,395	3,624,561
Loans for internal projects	(1,243,107)			(1,243,107)
Net Invested Endowment Net Assets, June 30, 2018	<u>\$ 920,438</u>	<u>\$ 554,621</u>	<u>\$ 906,395</u>	<u>\$ 2,381,454</u>

Funds With Deficiencies - From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or PMIFA suggests the Agency to retain as a fund of perpetual duration. As of June 30, 2018 and 2017, no such deficiencies existed. However, for the year ended June 30, 2017, the Agency's Board approved a resolution to fund internal loans totaling \$1,249,638 of the unrestricted board designated endowment. The loans will be repaid according to the Board approved payment plans for each individual loan. As of June 30, 2018, the balance on the loan was \$1,243,107.

Return Objectives and Risk Parameters - The Agency has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Agency must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Agency expects its endowment funds, over time, to provide an average rate of return of approximately 5% over the spending policy. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the Agency relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Agency targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 15 - Continued

Spending Policy and How the Investment Objectives Relate to Spending Policy - The Agency has a policy of appropriating for distribution each year an amount that is determined by the Board of Directors. Over the long term, the Agency expects the current spending policy to allow its endowment to continue to maintain the value of the original gifts to the endowment. This is consistent with the Agency's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

Note 16 - Affiliations and Related Party

Hope Village II Limited Liability Company - The Agency is affiliated with Hope Village II Limited Liability Company (Hope Village II LLC).

Hope Village II LLC was formed on May 8, 2002, to construct and operate a low-income housing complex in Everett, Washington. The initial members were Building Credits, as the managing member, and Housing Hope Properties as a member.

The Hope Village II LLC was amended on April 28, 2003, when National Equity Fund (NEF) an Illinois investing member replaced Housing Hope Properties as a member. Building Credits has a .01% interest, and NEF has a 99.99% interest.

According to the terms of the Hope Village II LLC agreement, Building Credits and Housing Hope are to receive the following:

- To Building Credits, a LLC management fee of \$10,000, increasing by 3% each year. For the year ended June 30, 2018, \$14,685 of partnership management fees were reflected in the financial statements.
- To Building Credits, an annual property management fee of \$6,480, which is \$45 per unit per month for the 12 unit complex.
- To Housing Hope repayment of loans it has made to the LLC.
- To Housing Hope for reimbursable administrative expenses related to property management salaries, insurance expense, and other miscellaneous expenses. For the year ending June 30, 2018, \$39,022 of reimbursable expenses were reflected in the on consolidated financial statements.

These fees are contingent upon the availability of cash. Each of these entities has guaranteed to fully and faithfully perform all of their obligations under the Hope Village II LLC agreement.

- Housing Hope entered into a 15-year lease with Hope Village II LLC for the commercial space in one of the LLC's buildings for a learning center and a before/after school area. During the year ended June 30, 2018, \$9,930 was paid to Hope Village II LLC under this lease.

The Hope Village II LLC has granted Housing Hope an option to purchase the Project after the 15-year compliance period for the low-income housing tax credit. If such option is not exercised, the Project may be sold to third parties. Consistent with Housing Hope's mission, loan covenants and grant requirements, it is Housing Hope's intention to exercise this option.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 16 - Continued

Avondale Housing Limited Partnership - The Agency is affiliated with Avondale Housing Limited Partnership (Avondale LP).

Avondale LP was formed on August 23, 2005, to construct and operate a low-income housing complex in Everett, Washington. The initial partners were Building Credits, as the general partner, and Housing Hope as a limited partner.

Avondale LP was amended on November 1, 2005, when National Equity Fund (NEF) an Illinois investing member replaced Housing Hope as a limited partner. Building Credits has a .01% interest, and NEF has a 99.99% interest.

According to the terms of the Avondale LP agreement, Building Credits and Housing Hope are to receive the following:

- To Building Credits, a partnership management fee of \$7,000, increasing by 3% each year. For the year ended June 30, 2018, \$9,690 of partnership management fees were reflected in the consolidated financial statements.
- To Building Credits, a property management fee of \$7,560, which is \$45 per unit per month for the 14 unit complex.
- To Housing Hope for reimbursable administrative expenses related to property management salaries, insurance expense, and other miscellaneous expenses. For the year ending June 30, 2018, \$42,613 of reimbursable expenses were reflected in the on consolidated financial statements.

These fees are contingent upon the availability of cash. Each of these entities has guaranteed to fully and faithfully perform all of their obligations under the Avondale LP agreement.

The Avondale LP has granted Housing Hope an option to purchase the Project after the 15-year compliance period for the low-income housing tax credit. If such option is not exercised, the Project may be sold to third parties. Consistent with Housing Hope's mission, loan covenants and grant requirements, it is Housing Hope's intention to exercise this option.

New Century Village Limited Liability Company - The Agency is affiliated with New Century Village Limited Liability Company (New Century Village LLC).

New Century Village LLC was formed on January 13, 2005, to construct and operate a low-income housing complex in Everett, Washington. The initial members were Building Credits, as the managing member, and Housing Hope as a member.

The New Century Village LLC was amended on June 28, 2006, when National Equity Fund (NEF) an Illinois investing member replaced Housing Hope as a member. Building Credits has a .01% interest, and NEF has a 99.99% interest.

According to the terms of the New Century Village LLC agreement, Building Credits and Housing Hope are to receive the following:

- To Building Credits, a company management fee of \$10,000, increasing by 3% each year. For the year ended June 30, 2018, \$13,438 of partnership management fees were reflected in the consolidated financial statements.
- To Building Credits, a property management fee of \$13,500, which is \$45 per unit per month for the 25 unit complex.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 16 - Continued

- To Housing Hope repayment of loans it has made to the LLC.
- To Housing Hope for reimbursable administrative expenses related to property management salaries, insurance expense, and other miscellaneous expenses. For the year ending June 30, 2018, \$64,149 of reimbursable expenses were reflected in the on consolidated financial statements.

These fees are contingent upon the availability of cash. Each of these entities has guaranteed to fully and faithfully perform all of their obligations under the New Century Village LLC agreement.

The New Century Village LLC has granted Housing Hope an option to purchase the Project after the 15-year compliance period for the low-income housing tax credit. If such option is not exercised, the Project may be sold to third parties. Consistent with Housing Hope's mission, loan covenants and grant requirements, it is Housing Hope's intention to exercise this option.

Monroe Family Village Limited Liability Company - The Agency is affiliated with Monroe Family Village Limited Liability Company (Monroe Family Village LLC).

Monroe Family Village LLC was formed on January 8, 2013, to construct and operate a low-income housing complex in Monroe, Washington. Housing Hope was the Sole Member at incorporation.

The Monroe Family Village LLC was amended on May 23, 2014 with Housing Hope Properties becoming the Managing Member with 0.01% interest and NEF Assignment Corporation becoming the Investor Member with a 99.99% interest in the LLC.

According to the terms of the Monroe Family Village LLC agreement, Housing Hope Properties and Housing Hope are to receive the following:

- To Housing Hope repayment of Developer Fee. For the year ending June 30, 2018, \$581,459 of developer fees were reflected in the consolidated financial statements.
- To Housing Hope Loan Funds made to the LLC. For the year ending June 30, 2018, \$1,320,000 of loan funds were reflected in the consolidated financial statements.
- To Housing Hope Properties, a company management fee of \$20,000, increasing by 3% each year. For the year ended June 30, 2018, \$21,218 of partnership management fees were reflected in the consolidated financial statements.
- To Housing Hope Properties, a property management fee of \$25,380, which is \$45 per unit per month for the 47 unit complex.
- To Housing Hope for reimbursable administrative expenses related to property management salaries, insurance expense, and other miscellaneous expenses. For the year ending June 30, 2018, \$91,043 of reimbursable expenses were reflected in the on consolidated financial statements.

These payments are contingent upon the availability of cash. Each of these entities has guaranteed to fully and faithfully perform all of their obligations under the Monroe Family Village LLC agreement.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 16 - Continued

The Monroe Family Village LLC has granted to Housing Hope an option to either purchase the assets of the project or to purchase the Investor Members interest in the LLC after expiration of the 15-year compliance period for the low income housing tax credits. If such option is not exercised, the project may be sold to third parties. Consistent with Housing Hope's mission, loan covenants and grant requirements, it is Housing Hope's intension to exercise this option.

Twin Lakes Landing Limited Liability Company - The Agency is affiliated with Twin Lakes Landing Limited Liability Company (Twin Lakes Landing LLC).

Twin Lakes Landing LLC was formed on January 22, 2015, to construct and operate a low-income housing complex in, Washington. Housing Hope Properties was the Sole Member at incorporation.

The Twin Lakes Landing LLC was amended on December 29, 2016 with Housing Hope Properties becoming the Managing Member with 0.01% interest and NEF Assignment Corporation becoming the Investor Member with a 99.99% interest in the LLC.

According to the terms of the Twin Lakes Landing LLC agreement, Housing Hope Properties and Housing Hope are to receive the following:

- To Housing Hope Properties payment of a portion of the Developer Fee. For the year ending June 30, 2018, \$1,181,225 of developer fees were reflected in the consolidated financial statements.
- To Housing Hope Loan Funds made to the LLC. For the year ending June 30, 2018, \$624,546 of loan funds were reflected in the consolidated financial statements.
- To Housing Hope Properties, a property management fee of \$15,750, which is \$45 per unit per month for the 50 unit complex. During 2018, the complex was placed into service in December 2017 and a property management fee was earned for seven months.
- To Housing Hope for reimbursable administrative expenses related to property management salaries, insurance expense, and other miscellaneous expenses. For the year ending June 30, 2018, \$85,392 of reimbursable expenses were reflected in the on consolidated financial statements.

These payments are contingent upon the availability of cash. Each of these entities has guaranteed to fully and faithfully perform all of their obligations under the Twin Lakes Landing LLC agreement.

The Twin Lakes Landing LLC has granted to Housing Hope an option to either purchase the assets of the project or to purchase the Investor Members interest in the LLC after expiration of the 15-year compliance period for the low income housing tax credits. If such option is not exercised, the Project may be sold to third parties. Consistent with Housing Hope's mission, loan covenants and grant requirements, it is Housing Hope's intension to exercise this option.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 16 - Continued

HopeWorks Station Residential Limited Liability Limited Partnership - The Agency is affiliated with HopeWorks Station Residential Limited Liability Limited Partnership (HopeWorks Station Residential LLLP).

HopeWorks Station Residential LLLP was formed on January 1, 2017, to construct and operate a low-income 65 unit residential project in a condominium unit located in a portion of one building located in, Washington. HopeWorks Station Residential GP LLC was the general partner and Housing Hope Properties was the Initial Limited Partner at incorporation.

The HopeWorks Station Residential LLLP was amended on May 7, 2018 with the withdrawal of Housing Hope Properties and the admission of Wincopin Circle LLLP as the Limited Partner who assigned their Limited Partnership interest to Enterprise Housing Equity Fund I, LLLP with 99.99% interest. HopeWorks Station Residential GP LLC remained the General Partner with a 0.01% interest in the LLLP.

According to the terms of the HopeWorks Station Residential LLLP agreement, Housing Hope Properties and HopeWorks Social Enterprises are to receive the following:

- To Housing Hope Properties payment of a portion of the Developer Fee. For the year ending June 30, 2018, \$234,185 of developer fees were reflected in the consolidated financial statements.
- To HopeWorks Social Enterprise Loan Funds made to the LLLP for the year ending June 30, 2018, \$22,096 of loan funds were reflected in the consolidated financial statements.

These payments are contingent upon the availability of cash. Each of these entities has guaranteed to fully and faithfully perform all of their obligations under HopeWorks Station Residential LLLP the agreement.

The HopeWorks Station Residential LLLP has granted to HopeWorks Station Residential GP LLC, an option to purchase the Limited Partner's interest in the LLC after expiration of the 15-year compliance period for the low income housing tax credits and beginning after the first calendar year following the Credit Period. Additionally, Housing Hope Properties, has first right of refusal to purchase the Project. If such option is not exercised, the Project may be sold to third parties. Consistent with Housing Hope's mission, loan covenants and grant requirements, it is Housing Hope's intension to exercise this option.

HopeWorks Station Enterprises - HopeWorks Station Enterprises is a related party to the Agency.

HopeWorks Station Enterprises was formed on August 4, 2016, to construct and operate a commercial project in a condominium unit located in a portion of one building located in, Washington commonly known as HopeWorks Station II. HopeWorks Station Enterprises is a non-for-profit corporation in the State of Washington.

On May 7, 2018, HopeWorks Station Enterprises closed on the financing of HopeWorks Station II utilizing New Market Tax Credits (NMTC). As the result of this closing, HopeWorks Social Enterprises loaned funds (\$8,517,000) and The Northern Trust Company contributed a net capital contribution of NMTC Equity (\$4,563,000) to TNT - HopeWorks NMTC Fund, LLC (Investment Fund). According to the terms of the loan agreement with TNT - HopeWorks NMTC Fund, LLC, annual interest payments of \$82,410 (prorated for the first year) will be paid on the 10th day of each December with the first payment beginning December 2018 and the last payment at maturity December 2047.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 16 - Continued

The Northern Trust Company and HopeWorks Social Enterprises has contractually agreed to a put/call option agreement for The Northern Trust Company to dispose of its Interest in the Fund at the end of the Tax Credit Investment Period.

Notes receivable, deferred developer fees and accrued interest due from affiliates and related party are as follows at June 30:

	Notes Receivable	Accrued Interest	Less Current Portion	Total Long- Term Portion
New Century Village	\$ 302,500	\$ 3,640	\$ (98,853)	\$ 207,287
Hope Village II	258,225	1,937	(260,162)	
Monroe Family Village	1,901,459	222,849	(135,000)	1,989,308
Twin Lakes Landing	1,805,771	45,640	(385,198)	1,466,213
HopeWorks Station Residential	22,096			22,096
HopeWorks Station Enterprises	8,517,000	12,361	(53,566)	8,475,795
June 30, 2018 Total	<u>\$ 12,807,051</u>	<u>\$ 286,427</u>	<u>\$ (932,779)</u>	<u>\$ 12,160,699</u>
June 30, 2017 Total	<u>\$ 3,194,071</u>	<u>\$ 163,135</u>	<u>\$ (259,779)</u>	<u>\$ 3,097,427</u>

Other amounts due (to) from affiliates consists of the following at June 30:

	Direct Cost	Partnership Mgmt Fees	June 30, 2018 Total	June 30, 2017 Total
Avondale	\$ 3,232	\$ -	\$ 3,232	\$ 17,314
New Century Village	4,053	128,078	132,131	122,587
Hope Village II LLC	2,548		2,548	4,587
Monroe Family Village	5,162	45,151	50,313	35,778
Twin Lakes Landing	216,537	356	216,893	66,538
June 30, 2018 Total	<u>\$ 231,532</u>	<u>\$ 173,585</u>	<u>\$ 405,117</u>	<u>\$ -</u>
June 30, 2017 Total	<u>\$ 108,231</u>	<u>\$ 138,573</u>	<u>\$ -</u>	<u>\$ 246,804</u>

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 17 - Self Insurance

The Agency is a member of the 501(c) Agencies Trust (the Trust). The Trust facilitates the utilization by member agencies of the Reimbursement Financing Method of meeting obligations under State unemployment insurance statutes. As of June 30, 2018, the Agency had deposits with the Trust of \$40,953 which are reported in the consolidated statement of financial position as funds held in trust. As of June 30, 2018, the Agency estimated a liability for incurred-but-not-reported unemployment claims of \$58,212, which is included in accounts payable and accrued expenses in the consolidated statement of financial position.

Note 18 - Property Lease Commitments

The Agency is the lessor to four commercial leases located at the Agency's commerce building. Lease terms range from three to five years with options for an additional five years. Monthly lease payments range from \$884 to \$5,250 per lease, and will be adjusted annually for certain operating costs.

Future minimum lease payments to be received are as follows:

For the Year Ending June 30,

2019	\$	103,306
2020		94,957
2021		35,337
2022		21,600
2023		21,600
		<u>21,600</u>
	\$	<u>276,800</u>

The Agency is a lessee of the commercial space being developed by the lessor for a building commonly known as HopeWorks Station II. The Agency will be entitled to occupy the property when the Project has been substantially completed by the Lessor. The Project is scheduled to be completed August 2019. Annual lease payments are due every December and the lease term expires December 31, 2043.

Future minimum lease payments to be paid are as follows:

For the Year Ending June 30,

2019	\$	-
2020		50,000
2021		105,000
2022		105,000
2023		105,000
Thereafter		<u>13,149,000</u>
	\$	<u>13,514,000</u>

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 19 - Subsequent Events

Subsequent to year end, the Agency was notified of a partial distribution in the amount of \$5,000,000 of a residual interest in a bequest. The amount of the bequest and timing of the distribution was not known as of June 30, 2018. As such, the related bequest was booked subsequent to year end. There is expected to be a final distribution in 2020 of an unknown amount.

During the year ended June 30, 2018, the Agency formed Possession Sound Properties, LLC. The Agency is scheduled to close on a new 4% LIHTC transaction in February 2019. At closing Possession Sound Properties, LLC will admit NEF Assignment Corporation as the Investor Member and Housing Hope Properties will be the Managing Member. Possession Sound Properties is a scattered site acquisition and rehabilitation project of three existing Housing Hope complexes located in Everett, Marysville and Stanwood.

SUPPLEMENTARY INFORMATION

HOUSING HOPE AND SUBSIDIARIES

Consolidating Statement of Financial Position - Assets June 30, 2018 (With Comparative Totals for 2017)

	Housing Hope	Building Credits	Housing Hope Properties	HopeWorks	Subtotal	Eliminations	2018 Consolidated Total	2017 Consolidated Total
Assets								
Current Assets:								
Cash and cash equivalents	\$ 782,739	\$ 46,608	\$ 59,873	\$ 172,650	\$ 1,061,870	\$ -	\$ 1,061,870	\$ 428,999
Short-term investments	124,000				124,000		124,000	268,000
Accounts receivable, net	22,619			218,967	241,586		241,586	249,687
Grants and contracts receivable	742,259		44,382	19,750	806,391		806,391	267,391
Due from affiliates	231,532	128,078	45,507		405,117		405,117	246,804
Current portion of notes receivable, accrued interest and deferred developer fees due from affiliates and related party	497,890		381,325	53,564	932,779		932,779	259,779
Pledges receivable, current portion	98,853			70,471	169,324		169,324	131,003
Real estate inventory			792,220		792,220		792,220	529,011
Prepaid expenses and other current assets	43,419			25,716	69,135		69,135	73,629
Total Current Assets	2,543,311	174,686	1,323,307	561,118	4,602,422		4,602,422	2,454,303
Assets Whose Use is Limited or Restricted:								
Assets designated by board for long-term reserves and investment in long-term assets	1,511,022				1,511,022		1,511,022	1,364,486
Assets restricted by donors for the acquisition of long-term assets	47,285			1,321,291	1,368,576		1,368,576	2,056,577
Assets restricted by donors for endowments and long-term reserves	1,565,698				1,565,698		1,565,698	1,651,213
Restricted reserves and deposits	298,538				298,538		298,538	360,481
Other Assets:								
Pledges receivable, long-term portion	32,951			23,490	56,441		56,441	89,292
Self-help family loans receivable			523,323		523,323		523,323	500,281
Funds held in trust	40,953				40,953		40,953	77,407
Land, buildings and equipment, net	32,724,080		183,715	2,155,579	35,063,374		35,063,374	37,020,755
Notes receivable, accrued interest and deferred developer fees due from affiliates and related party, net of current portion	2,428,016		1,181,225	8,551,458	12,160,699		12,160,699	3,097,427
Project development costs	1,093,094				1,093,094		1,093,094	1,694,549
Investment in limited partnerships and limited liability companies		1,339,657	134		1,339,791		1,339,791	1,339,847
Total Assets	\$ 42,284,948	\$ 1,514,343	\$ 3,211,704	\$ 12,612,936	\$ 59,623,931	\$ -	\$ 59,623,931	\$ 51,706,618

See independent auditor's report.

HOUSING HOPE AND SUBSIDIARIES

Consolidating Statement of Financial Position - Liabilities and Net Assets June 30, 2018 (With Comparative Totals for 2017)

	Housing Hope	Building Credits	Housing Hope Properties	HopeWorks	Subtotal	Eliminations	2018 Consolidated Total	2017 Consolidated Total
Liabilities and Net Assets								
Current Liabilities:								
Short-term borrowings	\$ 1,198,345	\$ -	\$ -	\$ 93,503	\$ 1,291,848	\$ -	\$ 1,291,848	\$ 381,039
Accounts payable and accrued expenses	281,877		100,438	990,435	1,372,750		1,372,750	1,078,705
Construction payable	65,286				65,286		65,286	137,266
Deferred revenue	15,206			1,224	16,430		16,430	72,381
Current portion of accrued interest	20,860			47,252	68,112		68,112	66,365
Current portion of long-term debt	401,136				401,136		401,136	2,128,264
Total Current Liabilities	1,982,710		100,438	1,132,414	3,215,562		3,215,562	3,864,020
Accrued long-term expenses	193,468				193,468		193,468	153,089
Accrued interest on long-term debt	1,141,452				1,141,452		1,141,452	1,015,809
Long-term debt, net of current portion and unamortized financing fees	23,671,602		632,326	6,384,538	30,688,466		30,688,466	23,767,079
Total Liabilities	26,989,232		732,764	7,516,952	35,238,948		35,238,948	28,799,997
Net Assets:								
Unrestricted-								
Undesignated	4,650,007	1,494,084	1,744,340	2,381,748	10,270,179		10,270,179	9,354,317
Designated by the Board of Directors	2,678,005				2,678,005		2,678,005	2,423,298
Total unrestricted	7,328,012	1,494,084	1,744,340	2,381,748	12,948,184		12,948,184	11,777,615
Temporarily restricted	7,061,309	20,259	734,600	2,714,236	10,530,404		10,530,404	10,226,211
Permanently restricted	906,395				906,395		906,395	902,795
Total Net Assets	15,295,716	1,514,343	2,478,940	5,095,984	24,384,983		24,384,983	22,906,621
Total Liabilities and Net Assets	\$ 42,284,948	\$ 1,514,343	\$ 3,211,704	\$ 12,612,936	\$ 59,623,931	\$ -	\$ 59,623,931	\$ 51,706,618

See independent auditor's report.

HOUSING HOPE AND SUBSIDIARIES

Consolidating Statement of Activities For the Year Ended June 30, 2018 (With Comparative Totals for 2017)

	Housing Hope	Building Credits	Housing Hope Properties	HopeWorks	Subtotal	Eliminations	2018 Consolidated Total	2017 Consolidated Total
Public Support, Revenues, Transfers and Gains:								
Public support-								
Contributions	\$ 2,275,029	\$ -	\$ -	\$ 1,257,446	\$ 3,532,475	\$ -	\$ 3,532,475	\$ 3,875,870
In-kind contributions	243,657		800	683,357	927,814		927,814	375,464
In-kind contribution of long-term assets	2,435				2,435		2,435	18,043
United Way	231,980			6,250	238,230		238,230	208,440
Total public support	2,753,101		800	1,947,053	4,700,954		4,700,954	4,477,817
Fees and grants from governmental agencies	1,159,287		480,013	1,059,754	2,699,054		2,699,054	1,898,636
Other revenue, transfers, gains and (losses)-								
Program service fees and rents	4,591,287			1,133,715	5,725,002		5,725,002	5,180,003
Management and development fees	81,943	37,813	1,436,984		1,556,740		1,556,740	195,892
Gain on sale of land, buildings and equipment				273,889	273,889		273,889	
Interest and other income (loss)	445,613	(22)	10,604	13,862	470,057		470,057	435,450
Impairment of real estate inventory								(74,565)
Transfer of assets to Affiliates				(601,965)	(601,965)		(601,965)	
Loss on sale of real estate inventory			(17,870)	(1,567)	(19,437)		(19,437)	(87,165)
Total other revenue, transfers, gains and (losses)	5,118,843	37,791	1,429,718	817,934	7,404,286		7,404,286	5,649,615
Total Public Support, Revenue, Transfers and Gains	\$ 9,031,231	\$ 37,791	\$ 1,910,531	\$ 3,824,741	\$ 14,804,294	\$ -	\$ 14,804,294	\$ 12,026,068

See independent auditor's report.

HOUSING HOPE AND SUBSIDIARIES

Consolidating Statement of Activities (Continued) For the Year Ended June 30, 2018 (With Comparative Totals for 2017)

	Housing Hope	Building Credits	Housing Hope Properties	HopeWorks	Subtotal	Eliminations	2018 Consolidated Total	2017 Consolidated Total
Expenses:								
Salary and wages	\$ 4,502,861	\$ 645	\$ 490,948	\$ 1,126,180	\$ 6,120,634	\$ -	\$ 6,120,634	\$ 5,018,366
Payroll taxes	430,481	56	49,272	125,921	605,730		605,730	496,964
Employee benefits	494,346		59,200	109,079	662,625		662,625	509,294
Total personnel	5,427,688	701	599,420	1,361,180	7,388,989		7,388,989	6,024,624
Professional fees	174,050		11,221	70,351	255,622		255,622	737,078
Supplies	195,710		4,727	80,133	280,570		280,570	223,699
Printing and postage	49,474		6,692	1,303	57,469		57,469	51,010
Information technology	188,453		8,113	40,729	237,295		237,295	197,824
Occupancy	634,038		14,738	104,126	752,902		752,902	652,774
Maintenance and repairs	456,285		211,280	63,819	731,384		731,384	533,318
Equipment and furniture	150,574		20,331	33,479	204,384		204,384	172,076
Vehicles	10,907			32,317	43,224		43,224	36,480
Insurance	145,554		5,207	18,031	168,792		168,792	164,668
Education and training	33,441		6,828	8,388	48,657		48,657	50,735
Mileage and travel	67,202		6,016	7,616	80,834		80,834	73,440
Client assistance	121,874		872	38	122,784		122,784	130,778
Interest, taxes and fees	817,571		4,469	278,466	1,100,506		1,100,506	981,319
Marketing and advertising	34,795		445	21,914	57,154		57,154	54,809
Miscellaneous	85,998		618	298,920	385,536		385,536	318,659
Total expenses before depreciation and amortization	8,593,614	701	900,977	2,420,810	11,916,102		11,916,102	10,403,291
Depreciation and amortization	1,290,777		4,707	114,346	1,409,830		1,409,830	1,418,260
Total Expenses	9,884,391	701	905,684	2,535,156	13,325,932		13,325,932	11,821,551
Net change in net assets	(853,160)	37,090	1,004,847	1,289,585	1,478,362		1,478,362	204,517
Net assets beginning of year	17,714,379	1,477,253	672,866	3,042,123	22,906,621		22,906,621	22,702,104
Transfer to (from)	(1,565,503)		801,227	764,276				
Net Assets, End of Year	\$ 15,295,716	\$ 1,514,343	\$ 2,478,940	\$ 5,095,984	\$ 24,384,983	\$ -	\$ 24,384,983	\$ 22,906,621

See independent auditor's report.