



HOUSING HOPE AND SUBSIDIARIES

Consolidated Financial Statements

For the Year Ended June 30, 2017

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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, 2017, 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, 2017, 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 22, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, 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 46 to 49 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 December 26, 2017 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
December 26, 2017

HOUSING HOPE AND SUBSIDIARIES

Consolidated Statement of Financial Position June 30, 2017 (With Comparative Totals for 2016)

	2017	2016
Assets		
Current Assets:		
Cash and cash equivalents	\$ 428,999	\$ 1,026,736
Short-term investments (Note 4)	268,000	233,246
Accounts receivable, net of an allowance for doubtful accounts of \$8,257 (\$12,897 - 2016)	249,687	118,215
Grants and contracts receivable	267,391	348,412
Due from affiliates (Note 16)	246,804	142,140
Current portion of notes receivable, accrued interest and developer fees due from affiliates (Note 16)	259,779	777,892
Pledges receivable, current portion (Note 5)	131,003	71,244
Real estate inventory	529,011	816,548
Prepaid expenses and other current assets	73,629	191,471
Total Current Assets	2,454,303	3,725,904
Assets designated by board for long-term reserves and investment in long-term assets (Note 6)	1,364,486	1,672,822
Assets restricted by donors for the acquisition of long-term assets (Note 9)	2,056,577	301,264
Assets restricted by donors for endowments and long-term reserves (Note 9)	1,651,213	1,397,883
Pledges receivable, long-term portion (Note 5)	89,292	159,596
Self-help family loans receivable	500,281	491,706
Restricted reserves and deposits (Note 3)	360,481	591,621
Funds held in trust	77,407	121,501
Land, buildings, and equipment, net (Note 10)	37,020,755	37,378,394
Notes receivable, accrued interest and deferred developer fees due from affiliates, net of current portion (Note 16)	3,097,427	2,907,805
Project development costs (Note 11)	1,694,549	2,557,379
Investment in limited partnerships and limited liability companies	1,339,847	1,339,689
Total Assets	\$ 51,706,618	\$ 52,645,564
Liabilities and Net Assets		
Current Liabilities:		
Short-term borrowings (Note 12)	\$ 381,039	\$ 1,637,439
Accounts payable and accrued expenses	1,078,878	915,352
Construction payable	137,266	152,139
Deferred revenue	72,208	57,730
Current portion of accrued interest	66,365	62,025
Current portion of long-term debt (Note 13)	2,128,264	1,337,741
Total Current Liabilities	3,864,020	4,162,426
Accrued long-term expenses	153,089	122,932
Accrued interest on long-term debt	1,015,809	910,361
Long-term debt, net of current portion and unamortized financing fees (Note 13)	23,767,079	24,747,741
Total Liabilities	28,799,997	29,943,460
Net Assets:		
Unrestricted-		
Undesignated	9,354,317	11,052,788
Designated by the Board of Directors (Note 6)	2,423,298	2,178,331
Total unrestricted	11,777,615	13,231,119
Temporarily restricted (Note 7)	10,226,211	8,570,732
Permanently restricted (Note 8)	902,795	900,253
Total Net Assets	22,906,621	22,702,104
Total Liabilities and Net Assets	\$ 51,706,618	\$ 52,645,564

See accompanying notes.

HOUSING HOPE AND SUBSIDIARIES

Consolidated Statement of Activities For the Year Ended June 30, 2017 (With Comparative Totals for 2016)

	2017			Total	2016 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Operating Activities					
Support, Revenue and Gains:					
Contributions	\$ 576,814	\$ 1,358,206	\$ 2,542	\$ 1,937,562	\$ 2,063,144
In-kind contributions	375,464			375,464	309,650
United Way	208,440			208,440	144,500
Fees and grants from governmental agencies	1,898,636			1,898,636	1,675,436
Program service fees and rents	5,180,003			5,180,003	4,433,633
Management and development fees	195,892			195,892	1,560,263
Interest and other income	372,110	63,340		435,450	254,130
Total Operating Support, Revenue and Gains	8,807,359	1,421,546	2,542	10,231,447	10,440,756
Net assets released from restrictions	1,290,779	(1,290,779)			
Total Operating Support, Revenue and Gains	10,098,138	130,767	2,542	10,231,447	10,440,756
Expenses:					
Housing development	872,153			872,153	751,831
Property management	4,182,199			4,182,199	3,754,853
Social services	3,364,019			3,364,019	2,897,521
HopeWorks	1,921,987			1,921,987	1,538,485
Resource development	526,587			526,587	464,664
Administration	954,606			954,606	839,916
Total Operating Expenses	11,821,551			11,821,551	10,247,270
(Including depreciation of \$1,418,260 and \$1,321,478 for 2017 and 2016, respectively)					
Change in Net Assets From Operating Activities	(1,723,413)	130,767	2,542	(1,590,104)	193,486
Nonoperating Activities					
Forgivable loan proceeds					1,874,885
Release of restricted assets - forgivable loan amortization	237,770	(237,770)			
Contributions for the acquisition of long-term assets		1,938,308		1,938,308	566,875
Net assets released from restriction for the acquisition of long-term assets	175,826	(175,826)			
(Loss) gain on the sale of real estate inventory and other assets	(87,165)			(87,165)	56,056
Impairment of fixed assets and real estate inventory	(74,565)			(74,565)	(118,178)
In-kind contribution of long-term assets	18,043			18,043	25,100
Change in Net Assets From Nonoperating Activities	269,909	1,524,712		1,794,621	2,404,738
Change in Net Assets	(1,453,504)	1,655,479	2,542	204,517	2,598,224
Net assets, beginning of year	13,231,119	8,570,732	900,253	22,702,104	20,103,880
Net Assets, End of Year	\$ 11,777,615	\$ 10,226,211	\$ 902,795	\$ 22,906,621	\$ 22,702,104

See accompanying notes.

HOUSING HOPE AND SUBSIDIARIES

**Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2017
(With Comparative Totals for 2016)**

	Program Services				Total Program Services	Supporting Services			2017 Total	2016 Total
	Housing Development	Property Management	Social Services	HopeWorks		Resource Development	Administration	Total Supporting Services		
Personnel:										
Salary and wages	\$ 592,070	\$ 226,640	\$ 2,249,368	\$ 932,378	\$ 4,000,456	\$ 351,230	\$ 666,680	\$ 1,017,910	\$ 5,018,366	\$ 4,114,993
Payroll taxes	78,226	24,510	209,627	99,117	411,480	29,002	56,482	85,484	496,964	403,405
Employee benefits	76,449	25,174	228,687	74,632	404,942	39,617	64,735	104,352	509,294	403,357
Total Personnel	746,745	276,324	2,687,682	1,106,127	4,816,878	419,849	787,897	1,207,746	6,024,624	4,921,755
Professional fees	6,185	648,457	63,154	3,406	721,202	4,137	11,739	15,876	737,078	755,376
Supplies	4,735	6,221	115,631	70,485	197,072	8,888	17,739	26,627	223,699	252,051
Printing and postage	2,778	4,385	12,364	1,219	20,746	25,016	5,248	30,264	51,010	44,523
Information technology	12,675	50,492	78,190	19,064	160,421	8,841	28,562	37,403	197,824	184,160
Occupancy	20,305	478,932	53,268	94,721	647,226	2,061	3,487	5,548	652,774	623,439
Maintenance and repairs	4,139	439,787	52,455	32,279	528,660	1,595	3,063	4,658	533,318	431,079
Equipment and furniture	43,762	89,917	1,561	36,754	171,994		82	82	172,076	147,808
Vehicles		376	11,356	24,731	36,463		17	17	36,480	27,035
Insurance	5,985	118,506	17,503	16,559	158,553	4,837	1,278	6,115	164,668	165,245
Education and training	9,246	10,038	11,203	6,137	36,624	3,883	10,228	14,111	50,735	30,416
Mileage and travel	9,381	16,267	36,456	6,649	68,753	2,267	2,420	4,687	73,440	80,568
Client assistance	337	2,724	127,555	83	130,699	30	49	79	130,778	101,293
Interest, taxes and fees	4,072	783,217	25,726	130,002	943,017	6,382	31,920	38,302	981,319	880,863
Marketing and advertising	1,808	1,871	10,119	20,906	34,704	19,725	380	20,105	54,809	80,212
Miscellaneous		39,965	1,686	240,112	281,763	19,076	17,820	36,896	318,659	199,969
Total Expenses Before Depreciation	872,153	2,967,479	3,305,909	1,809,234	8,954,775	526,587	921,929	1,448,516	10,403,291	8,925,792
Depreciation		1,214,720	58,110	112,753	1,385,583		32,677	32,677	1,418,260	1,321,478
	\$ 872,153	\$ 4,182,199	\$ 3,364,019	\$ 1,921,987	\$ 10,340,358	\$ 526,587	\$ 954,606	\$ 1,481,193	\$ 11,821,551	\$ 10,247,270

See accompanying notes.

HOUSING HOPE AND SUBSIDIARIES

Consolidated Statement of Cash Flows For the Year Ended June 30, 2017 (With Comparative Totals for 2016)

	2017	2016
Cash Flows From Operating Activities:		
Change in net assets	\$ 204,517	\$ 2,598,224
Adjustment to reconcile change in net assets to net cash provided by operating activities-		
Realized and unrealized gains	(203,023)	(32,021)
Contributions for long-term purposes	(1,938,308)	(566,875)
In-kind contribution of long-term assets	(18,043)	(25,100)
Gain on long-term debt forgiveness	(25,000)	(50,000)
Forgivable loan proceeds		(1,874,885)
Loss (gain) on sale of real estate inventory and other assets	87,165	(56,056)
Depreciation	1,418,260	1,321,478
Financing cost amortization	1,421	237
Impairment of fixed assets and real estate inventory	74,565	118,178
Decrease (increase) in assets:		
Accounts receivable	(131,472)	2,716
Grants and contracts receivable	81,021	(162,913)
Pledges receivable	(149,051)	(130,208)
Prepaid expenses	117,842	(146,115)
Self-help family loans receivable	(8,575)	36,960
Funds held in trust	44,094	2,748
Due from affiliates	54,932	(46,020)
Increase (decrease) in liabilities:		
Accounts payable, other accrued expenses and deferred revenue	340,641	412,134
Net Cash (Used) Provided by Operating Activities	(49,014)	1,402,482
Cash Flows From Investing Activities:		
Purchase of property, equipment and rehabilitation of property	(77,600)	(3,614,804)
Acquisition of predevelopment costs	(1,878,384)	(850,850)
Investment in real estate inventory	(609,766)	(321,365)
Proceeds from sale of real estate inventory	812,849	1,346,000
Repayment of notes receivable	1,268,311	436,845
Issuance of notes receivable	(469,971)	(2,183,292)
Investment in limited partnerships and limited liability companies	(158)	33
Proceeds from sale of short-term investments	(34,754)	(4,367)
Net withdrawal (deposits) to restricted reserves	231,140	(287,793)
Net change in assets whose use is limited or restricted-		
By board for long-term reserves and investment in long-term assets	308,336	297,996
By donors for reserves and investment in long-term assets	(1,805,620)	43,731
Net Cash Used by Investing Activities	(2,255,617)	(5,137,866)
Cash Flows From Financing Activities:		
Proceeds from issuance of long-term debt	1,227,778	2,182,000
Repayment of long-term debt	(827,338)	(770,451)
Payments for capitalized loan fees		(42,386)
Proceeds from short-term borrowings	30,250	650,416
Repayment of short-term borrowings	(662,104)	(477,858)
Forgivable loan proceeds		1,874,885
Contributions received for long-term purposes	1,938,308	566,875
Net Cash Provided by Financing Activities	1,706,894	3,983,481
Net Change in Cash and Cash Equivalents	(597,737)	248,097
Cash and cash equivalents, beginning of year	1,026,736	778,639
Cash and Cash Equivalents, End of Year	\$ 428,999	\$ 1,026,736
Supplementary Disclosures:		
Cash paid during the year for interest	\$ 814,561	\$ 791,408
Acquisition of property and equipment through assumption of forgivable loans	\$ -	\$ 1,874,885
Predevelopment costs acquired for which accounts payable existed at year end	\$ 137,266	\$ 152,139

See accompanying notes.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

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 123 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, 2017, Housing Hope's continued development of Twin Lakes Landing development project, secured financing, and transferred Housing Hope's ownership interest to Housing Hope Properties as Managing Member of Twin Lakes Landing, LLC. Kennedy Court and Fairview Apartments underwent a partial rehabilitation. Predevelopment work continued for the new construction project, HopeWorks Station II, and planning began for rehabilitation at the Beachwood Apartments, Maple Leaf Meadows Apartments, and Oakes Apartments.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

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, 2017, 8 lots were sold to new Team HomeBuilding participants at the Parkwood Site, a development located in Arlington, Washington and the Siegal Site was purchased in Sultan, Washington for future development of 10 lots.

Property Management - The Agency contracts for property management services with Coast Real Estate Services (Coast). This regional firm is an experienced manager of properties around the State of Washington and oversees a substantial inventory of over 4,129 affordable housing units, many with requirements similar to the Agency's. Under this contract, Coast is responsible for occupancy, compliance, fiscal management and maintenance. During the year ended June 30, 2017, households living in Housing Hope facilities (including tax credit properties) totaled 429 in 294 low-income, 129 homeless and 6 emergency shelter units. Subsequent to year end, the Agency terminated the contract with Coast and took over property management services effective July 1, 2017.

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 (formerly called case management), 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, 2017, the Agency provided emergency shelter to 73 individuals from 26 households and service enriched homeless housing to 648 individuals from 223 households. The College of Hope program provided 3,464 hours of adult life skills education to 777 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, 2017, these programs served 184 children from 174 parents from 126 households. These programs are included in the Social Services column on the consolidated statement of functional expenses.

HopeWorks - HopeWorks provided job training services to 37 homeless or low-income interns in its three social enterprises: GroundWorks, ReNewWorks and CafeWorks. Upon program graduation, 68% 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, 93% of past interns reported maintaining their employed 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, 2017

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.

Self-Help Family Loans Receivable - As of June 30, 2017 and 2016, \$500,281 and \$491,706 in self-help family loans, respectively, related to the Team Home Building program. The self-help family loans are forgiven by the Agency after 25 years, unless the related property is sold. If 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.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

Note 2 - Continued

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 and other assets, impairment of fixed assets and 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.

Change in Accounting Principle - During 2017, the Agency implemented the requirements of the Financial Accounting Standards Board's Accounting Standards Update No. 2015-03 - Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03). ASU 2015-03 changes the accounting for debt issuance costs (financing costs) by requiring that such costs be reported on the consolidated statement of financial position as a direct deduction to the related debt liability. Previously, financing costs were reported as a deferred charge asset on the consolidated statement of financial position. The Agency has restated the 2016 consolidated financial statements to conform to the 2017 presentation and as a result \$42,386 of unamortized financing costs were reclassified from capitalized costs to long-term debt on the consolidated statement of financial position as of June 30, 2016.

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 \$74,565 and \$118,178 for the years ended June 30, 2017 and 2016, 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, 2017

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, 2017 and 2016, the Agency contributed \$38,889 and \$36,017, 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, 2017, a substantial number of volunteers, including members of the Board of Directors, donated 4,527 hours (unaudited) to the Agency program services and fund-raising campaigns, with an additional 25,627 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>2017</u>	<u>2016</u>
Donated goods and services - Tomorrow's Hope Childcare Center	\$ 13,718	\$ 17,275
Donated goods and services - Administration	6,865	17,675
Donated goods and services - Fundraising	7,450	16,549
Donated goods and services - Housing	500	20,843
Donated goods, services and long-term assets - HopeWorks	57,404	82,362
Donated goods for resale - ReNewWorks	140,892	59,457
Donated software and hardware - Technology	11,249	
Donated goods and services - Social Services and Client Assistance	108,812	88,818
Donated social investor imputed interest	46,617	31,771
	<u>\$ 393,507</u>	<u>\$ 334,750</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 16% and 13% 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, 2017, and 2016, 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.

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.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

Note 2 - Continued

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, 2016 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, 2016.

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 December 26, 2017, 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, 2017

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>2017</u>	<u>2016</u>
WCRA maintenance and operating reserves	\$ 159,632	\$ 155,163
Custodial agreement deposits	35,899	153,335
Fairview Apartments reserves	54,256	125,173
Security deposits	93,473	92,374
Twin Lakes Landing reserves		41,517
Mountain Pacific reserves for Fleming duplexes	13,036	13,029
Banner Bank reserves for Beachwood units	4,185	11,030
	<u><u>\$ 360,481</u></u>	<u><u>\$ 591,621</u></u>

Note 4 - Investments

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

	<u>2017</u>	<u>2016</u>
Short-term investments	\$ 268,000	\$ 233,246
Assets designated by board for long-term reserves and investment in long-term assets	947,229	1,359,142
Assets restricted by donors for endowments and long-term reserves	1,348,928	1,255,534
	<u><u>\$ 2,564,157</u></u>	<u><u>\$ 2,847,922</u></u>

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

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 44,376	\$ 62,654
Realized and unrealized gains	226,724	32,021
Investment management fees	<u>(18,359)</u>	<u>(8,812)</u>
	<u><u>\$ 252,741</u></u>	<u><u>\$ 85,863</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, 2017

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, 2017.

Money Market - 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, 2017**

Note 4 - Continued

Fair Values Measured on a Recurring Basis - Fair values of assets measured on a recurring basis at June 30, 2017 and 2016, were as follows:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Money market funds	\$ 108,443	\$ -	\$ -	\$ 108,443
Mutual funds-				
Large cap core	140,057			140,057
Large cap growth	87,000			87,000
Large cap value	141,713			141,713
Small/medium cap core	73,937			73,937
Small/medium cap growth	50,991			50,991
Small/medium cap value	76,984			76,984
International	254,666			254,666
Currency	78,565			78,565
Fixed income	501,495			501,495
Other	112,240			112,240
Total mutual funds	1,517,648			1,517,648
Marketable equity securities-				
Information Technology	180,238			180,238
Materials	26,948			26,948
Healthcare	129,027			129,027
Industrial	109,854			109,854
Energy	646			646
Financial	213,485			213,485
Real Estate	27,787			27,787
Consumer Discretionary	177,007			177,007
Consumer Staples	73,074			73,074
Total marketable equity securities	938,066			938,066
Total June 30, 2017	\$ 2,564,157	\$ -	\$ -	\$ 2,564,157
Total June 30, 2016	\$ 2,847,922	\$ -	\$ -	\$ 2,847,922

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

Note 5 - Pledges Receivable

Pledges receivable at June 30, 2017, are as follows:

Receivable in less than one year	\$ 353,502
Receivable in one to five years	<u>92,521</u>
Total pledges receivable	446,023
Less discounts to net present value	(9,616)
Less allowance for uncollectible pledges receivable	<u>(5,423)</u>
Net Pledges Receivable	<u><u>\$ 430,984</u></u>

Pledges receivable due in more than one year are discounted at an annual rate of 4% for each additional year through the term of the pledge.

As of June 30, 2017, pledges receivable were reported in the consolidated statement of financial position as follows:

Pledges receivable, current portion	\$ 131,003
Pledges receivable, long-term portion	89,292
Assets restricted by donors for investment in long-term assets	205,445
Assets restricted by donors for endowments and long-term reserves	<u>5,244</u>
	<u><u>\$ 430,984</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>2017</u>	<u>2016</u>
Working capital and other reserves	\$ 39,715	\$ 103,129
Reserve for the replacement or repair of long-term assets	263,499	210,551
Board designated quasi-endowment	<u>2,120,084</u>	<u>1,864,651</u>
	<u><u>\$ 2,423,298</u></u>	<u><u>\$ 2,178,331</u></u>

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

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>2017</u>	<u>2016</u>
Investments and cash	\$ 1,364,486	\$ 1,672,822
	<u>\$ 1,364,486</u>	<u>\$ 1,672,822</u>

Note 7 - Temporarily Restricted Net Assets

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

	<u>2017</u>	<u>2016</u>
Reserves for program services	\$ 573,343	\$ 533,429
Acquisition of long-term assets	2,063,746	301,264
Endowment earnings (Note 15)	446,133	355,280
Forgivable loans (Note 14)	7,142,989	7,380,759
	<u>\$ 10,226,211</u>	<u>\$ 8,570,732</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>2017</u>	<u>2016</u>
Acquisition of long-term assets	\$ 175,826	\$ 710,210
Reserves for program expenses	1,290,779	1,257,951
Forgivable loan amortization	237,770	199,901
	<u>\$ 1,704,375</u>	<u>\$ 2,168,062</u>

Note 8 - Permanently Restricted Net Assets

At June 30, 2017 and 2016, the Agency had \$902,795 and \$900,253, 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, 2017

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>2017</u>	<u>2016</u>
Investments and cash	\$ 1,645,969	\$ 1,386,085
Pledges receivable	5,244	11,798
	<u><u>\$ 1,651,213</u></u>	<u><u>\$ 1,397,883</u></u>

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

	<u>2017</u>	<u>2016</u>
Investments and cash	\$ 1,851,132	\$ 104,954
Pledges receivable	205,445	196,310
	<u><u>\$ 2,056,577</u></u>	<u><u>\$ 301,264</u></u>

Note 10 - Land, Buildings and Equipment

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

	<u>2017</u>	<u>2016</u>
Land	\$ 8,443,855	\$ 8,443,855
Buildings and improvements	37,848,613	37,322,123
Furniture and equipment	1,420,687	1,312,698
Vehicles	228,594	202,464
	47,941,749	47,281,140
Less accumulated depreciation	<u>(10,920,994)</u>	<u>(9,902,746)</u>
Land, Buildings and Equipment, Net	<u><u>\$ 37,020,755</u></u>	<u><u>\$ 37,378,394</u></u>

Note 11 - Project Development Costs

Predevelopment costs have been incurred for the Twin Lakes Landing II project in Marysville and HopeWorks Station II in Everett. The accumulated development costs for the Twin Lakes Landing II and HopeWorks Station II projects at June 30, 2017 were \$1,021,856 and \$672,693, respectively, totaling \$1,694,549.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

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% (4.544% at June 30, 2017), with a maturity date due upon demand. At June 30, 2017 and 2016, there was an outstanding balance of \$351,933 and \$353,059, respectively.

Impact Capital - During the year ended June 30, 2016, the Agency obtained a predevelopment loan with maximum draws of \$881,584 for the development of the Twin Lakes Landing project, with 6.0% interest payable monthly and all principal and accrued interest due payable April 30, 2017. As of June 30, 2016, the loan balance was \$647,238. This loan was paid in full on December 20, 2016.

Rural Community Assistance Corporation Loan 0826-HH-01 - During the year ended June 30, 2015, the Agency obtained a loan in the amount of \$1,115,000 for the purchase of 14 finished lots in the Parkwood Estates project, with 4.75% interest payable monthly and all principal and all accrued interest due and payable January 1, 2017. Secured by deed of trust on real estate. As of June 30, 2016, the loan balance was \$637,142 for the remaining lots that were sold during fiscal year 2017. This loan was paid in full on November 30, 2016 for \$637,142.

JP Morgan Chase Bank LOC - During the year ended June 30, 2017, the Agency utilized the LOC for the purchase of GroundWorks equipment. The LOC has a variable interest rate of 2.300 percentage points over the Prime Index (6.55% at June 30, 2017), with a maturity date due upon demand. At June 30, 2017, there was an outstanding balance of \$29,106.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

Note 13 - Long-Term Debt

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

	<u>2017</u>	<u>2016</u>
<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. (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
<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	

HOUSING HOPE AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2017**

Note 13 - Continued

	<u>2017</u>	<u>2016</u>
<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. (2499)	292,940	
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)	285,322	301,189
<u>State of Washington Department of Commerce 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)	132,188	135,678
<u>State of Washington Department of Commerce 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)	166,749	171,152

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

Note 13 - Continued

	<u>2017</u>	<u>2016</u>
<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; non-interest 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)	796,076	810,432
<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)	345,100	357,000
<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
<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

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

Note 13 - Continued

	<u>2017</u>	<u>2016</u>
<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>		
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)	1,273,045	1,297,838
<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)	24,028	29,549
<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	537,000

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

Note 13 - Continued

	<u>2017</u>	<u>2016</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)	467,149	477,520
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. Subsequent to year end, the loan was paid in full in October 2017.	29,727	100,298
<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)	165,000	180,000
<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

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

Note 13 - Continued

	<u>2017</u>	<u>2016</u>
<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
<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 January 2022, five years after the due date of the first interest payment. (2617) A present value discount of \$90,057 and \$80,678 has been recognized and reported at June 30, 2017 and 2016, respectively, on the social investor notes due to the below market interest rate loans.	1,715,000	1,465,000
HOPEWORKS STATION <u>Chase Bank 5451885537002</u> Note payable secured by real property "3311 Broadway Ave, Everett, WA", due in 35 monthly installments of \$5,526, including principal and interest at a variable rate set annually using the Treasury Security rate (3.63% for 2017), until March 5, 2017. Note was paid in full during the year ended June 30, 2017. (2490)		339,557
KENNEDY COURT <u>COE/SNOCO HOME</u> Note payable secured by real property "Kennedy Court Apartments" with principal and simple interest at 3.0% deferred until the maturity date of the note, September 30, 2055. (2655B)	409,037	
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 \$475 at a rate of 4.25%. (2770F)	40,636	44,600

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

Note 13 - Continued

	<u>2017</u>	<u>2016</u>
<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)	202,800	209,560
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)	1,859,099	1,885,623
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 20 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
<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 February 2018. (2602E)	1,303,236	1,353,010

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

Note 13 - Continued

	<u>2017</u>	<u>2016</u>
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 is privately placed. Maturity date October 1, 2040. (2540B)	1,096,897	1,122,919
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 February 2018. (2601E)	495,586	515,391
<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
<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

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

Note 13 - Continued

	<u>2017</u>	<u>2016</u>
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)	1,067,681	1,093,265
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 payment 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)	1,584,230	1,614,175
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)	465,965	506,112

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

Note 13 - Continued

	<u>2017</u>	<u>2016</u>
<u>COE 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, 2041. The loan will be forgiven 100% on January 14, 2031 as long as the project continues to operate. (2789J)	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
<u>Impact Capital Pre-Development Loan - 2013202</u>		
Note payable secured by real property "Twin Lakes Landing I" with monthly interest only payments due at 6.5%, for 36 months, maturity date September 30, 2016, with a single 3-month extension granted to December 31, 2016. Paid in full during year ended June 30, 2017. (2608)		567,000
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)	5,396	5,564
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)	442,563	453,958
<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)	216,114	221,688

HOUSING HOPE AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2017**

Note 13 - Continued

	<u>2017</u>	<u>2016</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>209,325</u>	<u>215,794</u>
Total	26,026,365	26,208,546
Less current portion	(2,128,264)	(1,337,741)
Less present value discount	(90,057)	(80,678)
Less unamortized deferred financing fees	<u>(40,965)</u>	<u>(42,386)</u>
Long-Term Debt, Net	<u>\$ 23,767,079</u>	<u>\$ 24,747,741</u>

Principal maturities are as follows:

For the Year Ending June 30,

2018	\$ 2,128,264
2019	1,216,024
2020	950,811
2021	675,470
2022	1,398,405
Thereafter	<u>19,657,391</u>
	<u>\$ 26,026,365</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 \$374,266 and \$207,305 for the years ended June 30, 2017 and 2016, 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, 2017**

Note 14 - Forgivable Loans

The Agency received cumulative forgivable loan proceeds of \$10,997,195 through the years ended June 30, 2017 and 2016. 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, 2017, 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:

	2017	2016
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	\$ 6,588	\$ 11,388
<u>Snohomish County</u>		
<u>OHCD AHTF 9203260150</u>		
Mortgage payable secured by real property "Arlington," with original amount of \$57,000 and all payments deferred and principal and interest at 0% was forgiven in 2017 subject to a low-income housing agreement. (2710D)F		1,680
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. (2789)G	390,830	403,313

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

Note 14 - Continued

	<u>2017</u>	<u>2016</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 \$850,000 and all payments deferred and principal and interest at 0% to be forgiven in 2047 subject to use restriction covenant agreement. (2789)H	668,445	692,651
<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. (2789)F	755,890	774,536
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	304,316	319,754
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	84,580	87,830
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	49,251	51,051

HOUSING HOPE AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2017**

Note 14 - Continued

	<u>2017</u>	<u>2016</u>
<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	162,726	168,430
<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	48,215	49,915
<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	35,022	36,022
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	435,365	449,283
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	317,387	326,587

HOUSING HOPE AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2017**

Note 14 - Continued

	2017	2016
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	902,060	929,168
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	163,940	168,700
<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	58,880	65,280
<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	43,726	47,726
<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	94,626	101,601
<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	203,756	210,708

HOUSING HOPE AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2017**

Note 14 - Continued

	<u>2017</u>	<u>2016</u>
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	31,759	43,259
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	896,743	922,993
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 may be forgiven in 2018 contingent on compliance with eligible purposes in the homeownership program. (2777C)F	57,616	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 may be forgiven in 2018 contingent on compliance with eligible purposes in the homeownership program. (2777C)F	93,107	93,107

HOUSING HOPE AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2017**

Note 14 - Continued

	2017	2016
<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
<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

HOUSING HOPE AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2017**

Note 14 - Continued

	<u>2017</u>	<u>2016</u>
<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
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	20,571	22,807
<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	20,890	25,890
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	63,875	66,051

HOUSING HOPE AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2017**

Note 14 - Continued

	<u>2017</u>	<u>2016</u>
<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	15,241	15,918
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	181,445	187,802
<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	53,560	55,482
<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	52,392	54,267
<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	349,054	358,811
Total Forgivable Loans Temporarily Restricted Balance	<u>\$ 7,142,989</u>	<u>\$ 7,380,759</u>

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

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.

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	\$ -	\$ 446,133	\$ 902,795	\$ 1,348,928
Board designated quasi-endowment funds	2,120,084			2,120,084
Endowment Net Assets, June 30, 2017	<u>\$ 2,120,084</u>	<u>\$ 446,133</u>	<u>\$ 902,795</u>	<u>\$ 3,469,012</u>
Endowment Net Assets, June 30, 2016	<u>\$ 1,864,651</u>	<u>\$ 355,280</u>	<u>\$ 900,253</u>	<u>\$ 3,120,184</u>

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

Note 15 - Continued

Changes to endowment net assets for the year ended June 30, 2017, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2016	\$ 1,864,651	\$ 355,280	\$ 900,253	\$ 3,120,184
Endowment investment return-				
Interest and dividends	67,851	11,474		79,325
Realized and unrealized gains	175,097	51,064		226,161
Total endowment investment return	242,948	62,538		305,486
New contributions	160,924	2,119	2,542	165,585
Appropriation of endowment for expenditure	(148,439)	26,196		(122,243)
Endowment Net Assets, June 30, 2017	2,120,084	446,133	902,795	3,469,012
Loans for internal projects	(1,249,638)			(1,249,638)
Net Invested Endowment Net Assets, June 30, 2017	\$ 870,446	\$ 446,133	\$ 902,795	\$ 2,219,374

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, 2017 and 2016, 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.

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, 2017

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

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, 2017, \$14,258 of partnership management fees were reflected in the financial statements.
- To Housing Hope, a property management fee of \$12,000 each full year after the property has been placed in service, increasing by 3% per year. Property Management was outsourced to Coast in November of 2005. Fees are paid directly to Coast by Hope Village II LLC.
- To Housing Hope repayment of loans it has made to the LLC.

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, 2017, \$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.

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.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

Note 16 - Continued

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, 2017, \$9,407 of partnership management fees were reflected in the consolidated financial statements.
- To Housing Hope, a property management fee of \$10,500 each full year after the property has been placed in service, increasing by 3% each year. Property Management was outsourced to Coast in November of 2005. Fees are paid directly to Coast by the Partnership.

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, 2017, \$13,048 of partnership management fees were reflected in the consolidated financial statements.
- To Housing Hope, a property management fee of \$14,321 each full year after the property has been placed in service, increasing by 3% each year. Property Management was outsourced to Coast Real Estate Services in November of 2005. Fees are paid directly to Coast by New Century Village LLC.
- To Housing Hope repayment of loans it has made to the LLC.

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.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

Note 16 - Continued

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, 2017, \$716,034 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, 2017, \$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, 2017, \$20,600 of partnership management fees 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 the Monroe Family Village LLC agreement.

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 intention 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.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

Note 16 - Continued

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, 2017, \$118,775 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, 2017, \$469,971 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 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.

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

	<u>Notes Receivable</u>	<u>Accrued Interest</u>	<u>Less Current Portion</u>	<u>Total Long- Term Portion</u>
Hope Village II	\$ 422,304	\$ 3,027	\$ (23,518)	\$ 401,813
New Century Village	265,760	5,003	(93,261)	177,502
Monroe Family Village	2,036,034	140,349	(143,000)	2,033,383
Twin Lakes Landing	469,973	14,756		484,729
June 30, 2017 Total	<u>\$ 3,194,071</u>	<u>\$ 163,135</u>	<u>\$ (259,779)</u>	<u>\$ 3,097,427</u>
June 30, 2016 Total	<u>\$ 3,618,525</u>	<u>\$ 67,172</u>	<u>\$ (777,892)</u>	<u>\$ 2,907,805</u>

HOUSING HOPE AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2017**

Note 16 - Continued

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

	<u>Direct Cost</u>	<u>Partnership Mgmt Fees</u>	<u>June 30, 2017 Total</u>	<u>June 30, 2016 Total</u>
Avondale	\$ 17,314	\$ -	\$ 17,314	\$ 5,340
Hope Village II LLC	4,587		4,587	4,561
New Century Village	7,947	114,640	122,587	110,977
Monroe Family Village	11,845	23,933	35,778	21,262
Twin Lakes Landing	66,538		66,538	
June 30, 2017 Total	<u>\$ 108,231</u>	<u>\$ 138,573</u>	<u>\$ 246,804</u>	<u>\$ -</u>
June 30, 2016 Total	<u>\$ 37,215</u>	<u>\$ 104,925</u>	<u>\$ -</u>	<u>\$ 142,140</u>

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, 2017, the Agency had deposits with the Trust of \$77,407 which are reported in the consolidated statement of financial position as funds held in trust. As of June 30, 2017, the Agency estimated a liability for incurred-but-not-reported unemployment claims of \$47,664, 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 \$1,500 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,

2018	\$ 37,971
2019	22,076
2020	13,402
2021	13,737
	<u>13,737</u>
	<u>\$ 87,186</u>

SUPPLEMENTARY INFORMATION

HOUSING HOPE AND SUBSIDIARIES

Consolidating Statement of Financial Position - Assets June 30, 2017 (With Comparative Totals for 2016)

	Housing Hope	Building Credits	Housing Hope Properties	HopeWorks	Subtotal	Eliminations	2017 Consolidated Total	2016 Consolidated Total
Assets								
Current Assets:								
Cash and cash equivalents	\$ 232,022	\$ 22,933	\$ 94,547	\$ 79,497	\$ 428,999	\$ -	\$ 428,999	\$ 1,026,736
Short-term investments	268,000				268,000		268,000	233,246
Accounts receivable, net	135,319			114,368	249,687		249,687	118,215
Grants and contracts receivable	205,597		61,794		267,391		267,391	348,412
Due from affiliates	108,231	114,640	23,933		246,804		246,804	142,140
Current portion of notes receivable, accrued interest and deferred developer fees due from affiliates	259,779				259,779		259,779	777,892
Pledges receivable, current portion	72,052			58,951	131,003		131,003	71,244
Real estate inventory			529,011		529,011		529,011	816,548
Prepaid expenses and other current assets	38,658			34,971	73,629		73,629	191,471
Total Current Assets	1,319,658	137,573	709,285	287,787	2,454,303		2,454,303	3,725,904
Assets Whose Use is Limited or Restricted:								
Assets designated by board for long-term reserves and investment in long-term assets	1,364,486				1,364,486		1,364,486	1,672,822
Assets restricted by donors for the acquisition of long-term assets	244,007			1,812,570	2,056,577		2,056,577	301,264
Assets restricted by donors for endowments and long-term reserves	1,651,213				1,651,213		1,651,213	1,397,883
Restricted reserves and deposits	360,481				360,481		360,481	591,621
Other Assets:								
Pledges receivable, long-term portion	49,111			40,181	89,292		89,292	159,596
Self-help family loans receivable			500,281		500,281		500,281	491,706
Funds held in trust	77,407				77,407		77,407	121,501
Land, building, and equipment, net	34,096,025		137,659	2,787,071	37,020,755		37,020,755	37,378,394
Notes receivable, accrued interest and deferred developer fees due from affiliates, net of current portion	3,097,427				3,097,427		3,097,427	2,907,805
Project development costs	1,021,856			672,693	1,694,549		1,694,549	2,557,379
Investment in limited partnerships and limited liability companies		1,339,680	167		1,339,847		1,339,847	1,339,689
Total Assets	\$ 43,281,671	\$ 1,477,253	\$ 1,347,392	\$ 5,600,302	\$ 51,706,618	\$ -	\$ 51,706,618	\$ 52,645,564

See independent auditor's report.

HOUSING HOPE AND SUBSIDIARIES

Consolidating Statement of Financial Position - Liabilities and Net Assets June 30, 2017 (With Comparative Totals for 2016)

	Housing Hope	Building Credits	Housing Hope Properties	HopeWorks	Subtotal	Eliminations	2017 Consolidated Total	2016 Consolidated Total
Liabilities and Net Assets								
Current Liabilities:								
Short-term borrowings	\$ 351,933	\$ -	\$ -	\$ 29,106	\$ 381,039	\$ -	\$ 381,039	\$ 1,637,439
Accounts payable and accrued expenses	728,820		121,326	228,732	1,078,878		1,078,878	915,352
Construction payable	11,874			125,392	137,266		137,266	152,139
Deferred revenue	71,390			818	72,208		72,208	57,730
Current portion of accrued interest	51,815			14,550	66,365		66,365	62,025
Current portion of long-term debt	2,128,264				2,128,264		2,128,264	1,337,741
Total Current Liabilities	3,344,096		121,326	398,598	3,864,020		3,864,020	4,162,426
Accrued long-term expenses	153,089				153,089		153,089	122,932
Accrued interest on long-term debt	1,015,809				1,015,809		1,015,809	910,361
Long-term debt, net of current portion and unamortized deferred financing fees	21,064,138		553,200	2,149,741	23,767,079		23,767,079	24,747,741
Total Liabilities	25,577,132		674,526	2,548,339	28,799,997		28,799,997	29,943,460
Net Assets:								
Unrestricted-								
Undesignated	7,261,849	1,445,494	(227,017)	873,991	9,354,317		9,354,317	11,052,788
Designated by the Board of Directors	2,423,298				2,423,298		2,423,298	2,178,331
Total unrestricted	9,685,147	1,445,494	(227,017)	873,991	11,777,615		11,777,615	13,231,119
Temporarily restricted	7,116,597	31,759	899,883	2,177,972	10,226,211		10,226,211	8,570,732
Permanently restricted	902,795				902,795		902,795	900,253
Total Net Assets	17,704,539	1,477,253	672,866	3,051,963	22,906,621		22,906,621	22,702,104
Total Liabilities and Net Assets	\$ 43,281,671	\$ 1,477,253	\$ 1,347,392	\$ 5,600,302	\$ 51,706,618	\$ -	\$ 51,706,618	\$ 52,645,564

See independent auditor's report.

HOUSING HOPE AND SUBSIDIARIES

Consolidating Statement of Activities For the Year Ended June 30, 2017 (With Comparative Totals for 2016)

	Housing Hope	Building Credits	Housing Hope Properties	HopeWorks	Subtotal	Eliminations	2017 Consolidated Total	2016 Consolidated Total
Public Support, Revenues and Gains:								
Public support-								
Contributions	\$ 1,421,159	\$ -	\$ 12,500	\$ 2,442,211	\$ 3,875,870	\$ -	\$ 3,875,870	\$ 2,630,019
In-kind contributions	271,443			104,021	375,464		375,464	309,650
In-kind contribution of property								
In-kind contribution of long-term assets	18,043				18,043		18,043	25,100
Forgivable loan proceeds								1,874,885
United Way	189,690			18,750	208,440		208,440	144,500
Total public support	1,900,335		12,500	2,564,982	4,477,817		4,477,817	4,984,154
Fees and grants from governmental agencies	1,068,771		586,469	243,396	1,898,636		1,898,636	1,675,436
Other revenue, gains and (losses)-								
Program service fees and rents	4,272,759			907,244	5,180,003		5,180,003	4,433,633
Management and development fees	19,804	33,380	142,708		195,892		195,892	1,560,263
Interest and other income (loss)	400,406	1,962	28,031	5,051	435,450		435,450	254,130
Impairment of fixed assets	(74,565)				(74,565)		(74,565)	(118,178)
Gain (loss) on sale of real estate inventory and other assets	(87,165)				(87,165)		(87,165)	56,056
Total other revenue	4,531,239	35,342	170,739	912,295	5,649,615		5,649,615	6,185,904
Total Public Support, Revenue and Gains	\$ 7,500,345	\$ 35,342	\$ 769,708	\$ 3,720,673	\$ 12,026,068	\$ -	\$ 12,026,068	\$ 12,845,494

See independent auditor's report.

HOUSING HOPE AND SUBSIDIARIES

Consolidating Statement of Activities (Continued) For the Year Ended June 30, 2017 (With Comparative Totals for 2016)

	Housing Hope	Building Credits	Housing Hope Properties	HopeWorks	Subtotal	Eliminations	2017 Consolidated Total	2016 Consolidated Total
Expenses:								
Salary and wages	\$ 3,523,283	\$ 587	\$ 561,221	\$ 933,275	\$ 5,018,366	\$ -	\$ 5,018,366	\$ 4,114,993
Payroll taxes	322,193	51	75,518	99,202	496,964		496,964	403,405
Employee benefits	364,892		73,398	71,004	509,294		509,294	403,357
Total payroll costs	4,210,368	638	710,137	1,103,481	6,024,624		6,024,624	4,921,755
Professional fees	727,820		5,852	3,406	737,078		737,078	755,376
Supplies	148,565		4,649	70,485	223,699		223,699	252,051
Printing and postage	47,155		2,636	1,219	51,010		51,010	44,523
Information technology	166,798		11,962	19,064	197,824		197,824	184,160
Occupancy	546,028		12,025	94,721	652,774		652,774	623,439
Maintenance and repairs	422,581		78,458	32,279	533,318		533,318	431,079
Equipment and furniture	91,560		43,762	36,754	172,076		172,076	147,808
Vehicles	11,749			24,731	36,480		36,480	27,035
Insurance	142,268		5,841	16,559	164,668		164,668	165,245
Education and training	35,913		8,685	6,137	50,735		50,735	30,416
Mileage and travel	58,343		8,458	6,639	73,440		73,440	80,568
Client assistance	130,695			83	130,778		130,778	101,293
Interest, taxes and fees	847,296		4,021	130,002	981,319		981,319	880,863
Marketing and advertising	31,648		2,373	20,788	54,809		54,809	80,212
Miscellaneous	78,058		416	240,185	318,659		318,659	199,969
Total expenses before depreciation and amortization	7,696,845	638	899,275	1,806,533	10,403,291		10,403,291	8,925,792
Depreciation and amortization	1,303,094		2,413	112,753	1,418,260		1,418,260	1,321,478
Total Expenses	8,999,939	638	901,688	1,919,286	11,821,551		11,821,551	10,247,270
Net change in net assets	(1,504,226)	34,704	(127,348)	1,801,387	204,517		204,517	2,598,224
Net assets beginning of year	17,714,379	1,464,123	2,324,444	1,199,158	22,702,104		22,702,104	20,103,880
Transfer to (from)	1,494,386	(21,574)	(1,524,230)	51,418				
Net Assets, End of Year	\$ 17,704,539	\$ 1,477,253	\$ 672,866	\$ 3,051,963	\$ 22,906,621	\$ -	\$ 22,906,621	\$ 22,702,104

See independent auditor's report.