



HOUSING HOPE AND SUBSIDIARIES

Consolidated Financial Statements

For the Year Ended June 30, 2020

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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, 2020, 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 consolidated 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.



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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, 2020, 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.

Report on Summarized Comparative Information

We have previously audited the Agency's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 13, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, 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 49 to 52 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 November 30, 2020 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's 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
November 30, 2020

HOUSING HOPE AND SUBSIDIARIES

Consolidated Statement of Financial Position June 30, 2020 (With Comparative Totals for 2019)

	2020	2019
Assets		
Current Assets:		
Cash and cash equivalents	\$ 2,722,993	\$ 1,574,567
Short-term investments (Note 4)	124,800	124,800
Accounts receivable, net of an allowance for doubtful accounts of \$45,768 (\$6,191 - 2019)	261,721	262,853
Grants and contracts receivable	338,370	300,993
Due from affiliates (Note 15)	876,407	548,466
Current portion of notes receivable, accrued interest and developer fees due from affiliates (Note 15)	1,094,834	1,151,697
Pledges receivable, current portion (Note 5)	138,592	149,352
Real estate inventory	1,298,059	6,700
Prepaid expenses and other current assets	140,691	77,094
Total Current Assets	6,996,467	4,196,522
Assets designated by board for long-term reserves and investment in long-term assets (Note 6)	1,569,709	1,895,578
Assets restricted by donors for the acquisition of long-term assets (Note 8)	691,929	547,066
Assets restricted by donors for endowments and long-term reserves (Note 8)	6,328,766	6,479,639
Loan proceeds restricted for capital projects	1,573,061	
Pledges receivable, long-term portion (Note 5)	61,470	39,628
Self-help family loans receivable	462,344	512,433
Restricted reserves and deposits (Note 3)	534,696	314,064
Funds held in trust	132,945	57,405
Land, buildings and equipment, net (Note 9)	32,395,953	33,474,256
Notes receivable, accrued interest and deferred developer fees due from affiliates, net of current portion (Note 15)	17,589,668	17,106,207
Project development costs (Note 10)	2,139,774	1,388,981
Investment in limited partnerships and limited liability companies	1,339,573	1,339,770
Total Assets	\$ 71,816,355	\$ 67,351,549
Liabilities and Net Assets		
Current Liabilities:		
Short-term borrowings (Note 11)	\$ 1,073,548	\$ 1,431,968
Accounts payable and accrued expenses	1,872,280	1,114,709
Deferred revenue	15,535	9,006
Current portion of accrued interest	99,785	99,228
Current portion of long-term debt (Note 12)	1,633,154	863,399
Total Current Liabilities	4,694,302	3,518,310
Accrued long-term expenses	243,954	215,300
Accrued interest on long-term debt	1,438,646	1,286,609
Deferred Rent Liability	319,812	
Long-term debt, net of current portion and unamortized financing fees (Note 12)	28,904,835	25,135,907
Total Liabilities	35,601,549	30,156,126
Net Assets:		
Without donor restriction-		
Undesignated	19,400,306	15,652,576
Designated by the Board of Directors (Note 6)	2,829,598	3,408,813
Total without donor restriction	22,229,904	19,061,389
With donor restriction-		
With donor restriction for time or purpose (Note 7)	8,077,435	12,229,932
With donor restriction in perpetuity (Note 7)	5,907,467	5,904,102
Total with donor restriction	13,984,902	18,134,034
Total Net Assets	36,214,806	37,195,423
Total Liabilities and Net Assets	\$ 71,816,355	\$ 67,351,549

See accompanying notes.

HOUSING HOPE AND SUBSIDIARIES

Consolidated Statement of Activities For the Year Ended June 30, 2020 (With Comparative Totals for 2019)

	2020			2019
	Without Donor Restriction	With Donor Restriction	Total	
Operating Activities				
Support, Revenue and Gains:				
Contributions	\$ 654,753	\$ 1,246,684	\$ 1,901,437	\$ 1,747,862
In-kind contributions	253,120		253,120	288,704
United Way	272,500		272,500	337,500
Fees and grants from governmental agencies	1,996,692		1,996,692	3,746,161
Program service fees and rents	5,771,751		5,771,751	6,207,949
Management and development fees	1,873,779		1,873,779	237,650
Interest and other income	847,466	34,054	881,520	1,022,472
Total Operating Support, Revenue and Gains	11,670,061	1,280,738	12,950,799	13,588,298
Net assets released from restrictions	1,325,254	(1,325,254)		
Total Operating Support, Revenue and Gains	12,995,315	(44,516)	12,950,799	13,588,298
Expenses:				
Housing development	932,297		932,297	732,499
Property management	4,327,341		4,327,341	4,364,011
Social services	4,026,482		4,026,482	4,296,473
HopeWorks	3,092,746		3,092,746	2,665,408
Resource development	554,090		554,090	526,591
Administration	1,732,046		1,732,046	1,268,877
Total Operating Expenses				
(Including depreciation of \$1,338,922 and \$1,394,186 for 2020 and 2019, respectively)	14,665,002		14,665,002	13,853,859
Change in Net Assets From Operating Activities	(1,669,687)	(44,516)	(1,714,203)	(265,561)
Nonoperating Activities				
Forgivable loan proceeds				390,000
Release of restricted assets - forgivable loan amortization	308,929	(308,929)		
Contributions for the acquisition of long-term assets		679,886	679,886	2,576,246
Contribution for endowments		3,365	3,365	5,002,855
Net assets released from restriction for the acquisition of long-term assets	4,478,938	(4,478,938)		
Gain on the sale of real estate inventory and other assets	50,335		50,335	2,229,972
In-kind contribution of long-term assets				2,876,928
Change in Net Assets From Nonoperating Activities	4,838,202	(4,104,616)	733,586	13,076,001
Change in Net Assets	3,168,515	(4,149,132)	(980,617)	12,810,440
Net assets, beginning of year	19,061,389	18,134,034	37,195,423	24,384,983
Net Assets, End of Year	\$ 22,229,904	\$ 13,984,902	\$ 36,214,806	\$ 37,195,423

See accompanying notes.

HOUSING HOPE AND SUBSIDIARIES

**Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)**

	Program Services					Supporting Services			2020 Total	2019 Total
	Housing Development	Property Management	Social Services	HopeWorks	Total Program Services	Resource Development	Administration	Total Supporting Services		
Personnel:										
Salary and wages	\$ 532,870	\$ 788,353	\$ 2,667,574	\$ 1,324,933	\$ 5,313,730	\$ 387,450	\$ 1,150,897	\$ 1,538,347	\$ 6,852,077	\$ 6,599,198
Payroll taxes	60,668	102,616	279,532	160,300	603,116	37,746	108,896	146,642	749,758	654,104
Employee benefits	56,856	78,707	269,041	128,543	533,147	26,215	126,951	153,166	686,313	700,089
Total Personnel	650,394	969,676	3,216,147	1,613,776	6,449,993	451,411	1,386,744	1,838,155	8,288,148	7,953,391
Professional fees	200,053	70,898	232,044	79,000	581,995	5,782	24,185	29,967	611,962	347,451
Supplies	1,889	6,502	93,883	132,981	235,255	4,066	28,530	32,596	267,851	307,783
Printing and postage	9,601	4,811	16,323	5,034	35,769	19,738	5,354	25,092	60,861	53,258
Information technology	5,803	47,856	76,459	37,706	167,824	11,098	44,135	55,233	223,057	225,113
Occupancy	19,824	530,204	52,158	514,157	1,116,343	1,671	3,321	4,992	1,121,335	764,967
Maintenance and repairs	1,673	395,918	38,266	32,053	467,910	680	9,294	9,974	477,884	558,573
Equipment and furniture	2,564	217,026	13,368	30,619	263,577		4,165	4,165	267,742	173,185
Vehicles	1,985		12,376	51,760	66,121				66,121	59,685
Insurance	3,955	111,919	26,492	21,945	164,311	4,074	2,586	6,660	170,971	180,407
Education and training	14,217	3,462	9,194	15,882	42,755	2,620	6,987	9,607	52,362	59,796
Mileage and travel	8,728	10,921	30,100	3,413	53,162	884	1,754	2,638	55,800	81,972
Client assistance	857	3,871	120,634	6,376	131,738		35	35	131,773	156,874
Interest, taxes and fees	8,273	756,235	26,318	140,446	931,272	16,198	186,279	202,477	1,133,749	1,180,987
Marketing and advertising	894	3,395	5,984	35,439	45,712	4,866	1,973	6,839	52,551	39,874
Miscellaneous	90	52,969	1,921	244,381	299,361	31,002	13,550	44,552	343,913	316,357
Total Expenses Before Depreciation	930,800	3,185,663	3,971,667	2,964,968	11,053,098	554,090	1,718,892	2,272,982	13,326,080	12,459,673
Depreciation	1,497	1,141,678	54,815	127,778	1,325,768		13,154	13,154	1,338,922	1,394,186
	\$ 932,297	\$ 4,327,341	\$ 4,026,482	\$ 3,092,746	\$ 12,378,866	\$ 554,090	\$ 1,732,046	\$ 2,286,136	\$ 14,665,002	\$ 13,853,859

See accompanying notes.

HOUSING HOPE AND SUBSIDIARIES

Consolidated Statement of Cash Flows For the Year Ended June 30, 2020 (With Comparative Totals for 2019)

	2020	2019
Cash Flows From Operating Activities:		
Change in net assets	\$ (980,617)	\$ 12,810,440
Adjustment to reconcile change in net assets to net cash (used) provided by operating activities-		
Realized and unrealized gains	(206,860)	(206,860)
Contributions for long-term purposes	(679,886)	(2,576,246)
Contributions for endowments	(3,365)	(5,002,855)
In-kind contribution for imputed interest		(102,380)
In-kind contribution of long-term assets		(2,876,928)
Forgivable loan proceeds transferred to debt		120,000
Forgivable loan proceeds		(390,000)
Gain on sale of real estate inventory and other assets	(50,335)	(2,229,972)
Depreciation	1,338,922	1,394,186
Financing cost amortization	1,421	1,420
Decrease (increase) in assets:		
Accounts receivable	1,132	(21,267)
Grants and contracts receivable	(37,377)	505,398
Pledges receivable	(11,082)	(19,656)
Prepaid expenses	(63,597)	(7,959)
Self-help family loans receivable	50,089	10,890
Funds held in trust	(75,540)	(16,452)
Due from affiliates	(327,941)	(86,908)
Increase (decrease) in liabilities:		
Accounts payable, other accrued expenses and deferred revenue	1,265,160	(42,640)
Net Cash Provided by Operating Activities	220,124	1,262,211
Cash Flows From Investing Activities:		
Purchase of property, equipment and rehabilitation of property	(1,507,217)	(362,722)
Acquisition of predevelopment costs	(750,793)	(909,241)
Investment in real estate inventory	(2,107,909)	(33,612)
Proceeds from sale of real estate inventory	2,113,483	929,630
Repayment of notes receivable	548,752	668,090
Issuance of notes receivable	(975,350)	(1,278,585)
Investment in limited partnerships and limited liability companies	197	21
Proceeds from sale of short-term investments		(800)
Net withdrawal (deposits) to restricted reserves		(215,922)
Net change in assets whose use is limited or restricted-		
By board for long-term reserves and investment in long-term assets	284,024	(484,550)
By donors for reserves and investment in long-term assets	452,994	(4,704,875)
Net Cash Used by Investing Activities	(1,941,819)	(6,392,566)
Cash Flows From Financing Activities:		
Proceeds from issuance of long-term debt	7,881,080	768,853
Repayment of long-term debt	(3,343,818)	(4,329,996)
Proceeds from short-term borrowings	180	1,750,000
Repayment of short-term borrowings	(358,600)	(1,634,600)
Forgivable loan proceeds		390,000
Contributions received for endowments	3,365	5,002,855
Contributions received for long-term purposes	679,886	2,576,246
Net Cash Provided by Financing Activities	4,862,093	4,523,358
Net Change in Cash and Cash Equivalents	3,140,398	(606,997)
Cash and cash equivalents, beginning of year	2,517,689	3,124,686
Cash and Cash Equivalents, End of Year	\$ 5,658,087	\$ 2,517,689

See accompanying notes.

HOUSING HOPE AND SUBSIDIARIES

Consolidated Statement of Cash Flows (Continued) For the Year Ended June 30, 2020 (With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated statements of financial position that sums to the total of the same such amounts shown in the consolidated statements of cash flows:		
Cash and cash equivalents	\$ 2,722,993	\$ 1,574,567
Restricted reserves and deposits	534,696	314,064
Cash portion of assets designated by board for long-term reserves and long-term assets	261,537	303,383
Cash portion of assets restricted for acquisition of long-term assets	516,707	279,060
Cash portion of assets restricted for endowment and long-term reserves	49,093	46,615
Loan proceeds restricted for capital projects	<u>1,573,061</u>	
Total Cash, Cash Equivalents and Restricted Cash Shown in the Consolidated Statements of Cash Flows	<u>\$ 5,658,087</u>	<u>\$ 2,517,689</u>
Supplementary Disclosures:		
Cash paid during the year for interest	\$ 133,537	\$ 966,233
Sale of property and equipment with seller-financed note	\$ -	\$ 4,553,931

See accompanying notes.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

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 affordable housing and tailored services to reduce homelessness and poverty for 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 help low-income, Snohomish County residents achieve self-sufficiency through social enterprises that provide training and pathways to living-wage jobs. HopeWorks operates three social enterprises, Groundworks Landscaping, Renew Home & Decor and Kindred Kitchen.

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, 2020, HopeWorks Station II construction was completed. Tax-Credit syndication was completed and rehabilitation started for the Beachwood Apartments, Lervick Family Village, and Oakes Commons. Housing Hope Properties continued the rehabilitation of Beachwood Apartments, Lervick Family Village, and Oakes Commons on behalf of Possession Sound Properties, LLC. Planning and predevelopment work commenced for a two new developments, Twin Lakes Landing II and 'Sequoia Upper Field', while financing is near completion for the refinance and rehabilitation for Maple Leaf Meadows, Aspenwood Apartments and New Century House.

Team HomeBuilding - The Team HomeBuilding 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. Additionally, 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, 2020, 7 lots were sold to new Team HomeBuilding participants at the Lake Martha Ridge in Stanwood, Washington.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

Note 1 - Continued

Property Management - The Agency self performs property management services for all projects in its multifamily housing portfolio. The property management department is responsible for occupancy, compliance, fiscal management and maintenance at all sites. During the year ended June 30, 2020, households living in Housing Hope facilities (including tax credit properties) totaled 541 in 316 low-income, 219 homeless and 6 emergency shelter units.

Social Services - The Agency provides service enriched permanent affordable housing to help families stabilize, build skills and resources for a better future and ultimately escape poverty. Specific services provided include: family support services, College of Hope adult life skills education program, adult education and employment counseling. During the year ended June 30, 2020, the Agency provided emergency shelter to 71 individuals from 23 households and service enriched homeless housing to 746 individuals from 293 households. The College of Hope program provided 4,305 hours of adult life skills education to 656 individuals.

ChildHope - The ChildHope program is comprised of four individual 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, 2020, Tomorrow's Hope Child Development Center served 145 children and 150 parents from 102 households. These programs are included in the Social Services column on the consolidated statement of functional expenses.

HopeWorks - HopeWorks provided job training services to 46 homeless or low-income trainees in its three social enterprises: GroundWorks Landscaping Services, ReNew Home and Decor, and Kindred Kitchen (formerly CafeWorks). Upon completion, 75% of graduating HopeWorks trainees were successful in achieving employment or continuing their education post-graduation and 57% of HopeWorks trainees reported being employed or pursuing continuing education at six months after completing their training.

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.

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 which precludes consolidation. The Agency's investment in those limited partnerships and limited liability companies is therefore recorded on the equity method. See Note 15 for further description of the low income housing tax credit entities.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

Note 2 - Continued

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:

Net Assets Without Donor Restriction - Net assets that are not subject to donor-imposed stipulations. All contributions are considered to be available for 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 support with donor restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Agency reports the support as without donor restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations that will be met either by actions of the Agency and/or the passage of time, or net assets subject to donor-imposed stipulations that will be maintained permanently by the Agency.

Use of Estimates - The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - For reporting purposes, the Agency considers all investments in highly liquid debt instruments with an original maturity of three months or less, to be cash equivalents, excluding those included in the investment portfolio.

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

Conditional Contributions and Grants - Conditional contributions and grants are recognized as revenue in the period the conditions have been substantially satisfied. Conditional grants for which conditions had not yet been substantially met totaled approximately \$714,924 and \$707,420 at June 30, 2020 and 2019, respectively. The Agency expects to satisfy the conditions contained in these grants over the next two fiscal years.

Self-Help Family Loans Receivable - As of June 30, 2020 and 2019, \$462,344 and \$512,433 in self-help family loans, respectively, related to the Team Home Building program. If the related property is sold, the funds are repaid to the Agency at that time.

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

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

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, contributions for endowments, the gain or loss on the sale of real estate inventory and in-kind contributions of long term assets to be nonoperating activities.

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

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

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

Real Estate Inventory - As part of normal operations, the Agency purchases land that will be developed as part of the Team HomeBuilding program. This land is recorded at the lower of cost or fair market value. In accordance with U.S. GAAP, there was no impairment losses recognized for the years ended June 30, 2020 and 2019.

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.

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, 2020 and 2019, the Agency contributed \$66,347 and \$59,027, respectively, to the Plan.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

Note 2 - Continued

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, 2020, a substantial number of volunteers, including members of the Board of Directors, donated 4,128 hours (unaudited) to the Agency program services and fund-raising campaigns, with an additional 16,131 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 or capitalized if applicable, 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 contributions were recognized in the consolidated financial statements during the year ended June 30:

	<u>2020</u>	<u>2019</u>
Donated goods and services - Tomorrow's Hope Childcare Center	\$ 3,325	\$ 2,302
Donated goods and services - Administration	13,620	2,052
Donated goods and services - College of Hope	670	419
Donated goods and services - Fundraising	2,192	9,383
Donated goods and services - Housing/Property Management	733	250
Donated property - Hope Village II		2,876,928
Donated goods, services and long-term assets - HopeWorks	61,913	5,600
Donated goods for resale - ReNewWorks	109,683	108,870
Donated software and hardware - Technology	3,311	8,668
Donated goods and services - Social Services and Client Assistance	13,386	48,780
Donated social investor imputed interest	44,287	102,380
	<u>\$ 253,120</u>	<u>\$ 3,165,632</u>

Methods Used for Allocation of Expenses Among Program and Supporting Services - The financial statements report certain categories of expenses that are attributable to one or more program or supporting services of the Agency. Those expenses include, audit fees, depreciation, information technology, insurance, janitorial, office supplies, utilities. Audit fees, depreciation, janitorial, office supplies, and utilities, are allocated based on square footage basis. Information technology is based on a study of specific technology utilized.

Vulnerability From Certain Concentrations - The Agency receives fees and grants from federal, state, county, and municipal governments. Approximately 16% and 22% of total public support and revenue without donor restrictions (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, 2020, and 2019, respectively, was received from these grantors. The receipt of governmental funding is subject to audit by various governmental agencies, the outcome of which is not known until the audits are completed. Management is aware of these risks and has contingency plans available.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

Note 2 - Continued

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

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

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

Adoption of New Accounting Pronouncement - During the year ended June 30, 2020, the Agency adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2018-08 - *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This update was issued to clarify and improve the scope and accounting guidance for contributions received and contributions made. The update assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and (2) determining whether a contribution is conditional. There was no material effect of adoption of this ASU for the year ended June 30, 2020. The Agency has elected to adopt the changes from this ASU prospectively starting in the year ended June 30, 2020, and accordingly, no changes have been made to balance reported in the financial statements for the year ended June 30, 2019.

For the year ended June 30, 2020, the Agency adopted ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires the statement of cash flow to explain the change during the period in total cash, cash equivalents and restricted cash. The consolidated statements of cash flows reflect this change as of June 30, 2020 and 2019.

Reclassifications - Certain accounts in the June 30, 2019 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, 2019.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

Note 2 - Continued

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, 2019, from which the summarized information was derived.

Subsequent Events - The Agency has evaluated subsequent events through November 30, 2020, the date on which the consolidated financial statements were available to be issued.

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>2020</u>	<u>2019</u>
WCRA maintenance and operating reserves	\$ 169,479	\$ 179,338
Custodial agreement deposits	255,226	34,369
Security deposits	96,941	87,308
Mountain Pacific reserves for Fleming duplexes	13,050	13,049
	<u>\$ 534,696</u>	<u>\$ 314,064</u>

Note 4 - Investments

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

	<u>2020</u>	<u>2019</u>
Short-term investments	\$ 124,800	\$ 124,800
Assets designated by board for long-term reserves and investment in long-term assets	1,308,172	1,592,195
Assets restricted by donors for endowments and long-term reserves	6,279,673	6,433,023
	<u>\$ 7,712,645</u>	<u>\$ 8,150,018</u>

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

Note 4 - Continued

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

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 193,140	\$ 99,442
Realized and unrealized gains	279,397	618,865
Investment management fees	<u>(30,442)</u>	<u>(22,433)</u>
	<u><u>\$ 442,095</u></u>	<u><u>\$ 695,874</u></u>

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

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, 2020.

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

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

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

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

Note 4 - Continued

Fair Values Measured on a Recurring Basis - Fair values of assets measured on a recurring basis at June 30, 2020, and 2019, were as follows:

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 434,550	\$ -	\$ -	\$ 434,550
Mutual funds-				
Large cap core	335,890			335,890
Large cap growth	164,135			164,135
Large cap value	500,235			500,235
Small/medium cap core	92,292			92,292
Small/medium cap growth	129,748			129,748
Small/medium cap value	152,388			152,388
International	840,203			840,203
Currency	75,355			75,355
Fixed income	1,228,738			1,228,738
Other	907,936			907,936
Total mutual funds	4,426,920			4,426,920
Marketable equity securities-				
Communication Services	411,871			411,871
Consumer Discretionary	607,547			607,547
Consumer Staples	189,387			189,387
Energy	8,991			8,991
Financial	160,547			160,547
Health Care	325,301			325,301
Information Technology	785,055			785,055
Industrials	219,768			219,768
Materials	64,806			64,806
Real Estate	65,928			65,928
Utilities	11,974			11,974
Total marketable equity securities	2,851,175			2,851,175
Total June 30, 2020	\$ 7,712,645	\$ -	\$ -	\$ 7,712,645
Total June 30, 2019	\$ 8,150,018	\$ -	\$ -	\$ 8,150,018

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

Note 5 - Pledges Receivable

Pledges receivable at June 30, 2020, are as follows:

Receivable in less than one year	\$	324,932
Receivable in one to five years		<u>61,470</u>
Total pledges receivable		386,402
Less discounts to net present value		(5,387)
Less allowance for uncollectible pledges receivable		<u>(5,731)</u>
Net Pledges Receivable	\$	<u>375,284</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, 2020, pledges receivable were reported in the consolidated statement of financial position as follows:

Pledges receivable, current portion	\$	138,592
Pledges receivable, long-term portion		61,470
Assets restricted by donors for investment in long-term assets		<u>175,222</u>
	\$	<u>375,284</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 net assets without donor restrictions as of June 30, as follows:

	<u>2020</u>	<u>2019</u>
Working capital and other reserves	\$ 169,187	\$ 77,474
Reserve for the replacement or repair of long-term assets	92,350	225,908
Board designated quasi-endowment	<u>2,568,061</u>	<u>3,105,431</u>
	<u>\$ 2,829,598</u>	<u>\$ 3,408,813</u>

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

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>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 261,537	\$ 303,383
Investments	<u>1,308,172</u>	<u>1,592,195</u>
	<u><u>\$ 1,569,709</u></u>	<u><u>\$ 1,895,578</u></u>

The difference in the assets and the net assets without donor restrictions balance is due to the endowment loan for operating activities (Note 14).

Note 7 - Net Assets With Donor Restrictions

Net assets with donor restrictions as of June 30 are available for the following purposes:

	<u>2020</u>	<u>2019</u>
Restricted for program services	\$ 444,609	\$ 524,670
Acquisition of long-term assets	691,929	4,494,482
Forgivable loans (Note 13)	6,392,918	6,701,847
Endowment accumulated earnings	547,979	508,933
Endowment corpus	<u>5,907,467</u>	<u>5,904,102</u>
	<u><u>\$ 13,984,902</u></u>	<u><u>\$ 18,134,034</u></u>

At June 30, 2020 and 2019, the Agency had \$5,907,467 and \$5,904,102, respectively of net assets with donor restrictions in perpetuity. The income from the investment of these assets may be used to fund operations. See Note 14 for further disclosure of the Agency's endowment funds.

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>2020</u>	<u>2019</u>
Acquisition of long-term assets	\$ 4,478,938	\$ 616,000
Restricted for program expenses	1,325,254	1,662,292
Forgivable loan amortization	<u>308,929</u>	<u>563,605</u>
	<u><u>\$ 6,113,121</u></u>	<u><u>\$ 2,841,897</u></u>

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

Note 8 - Assets Restricted by Donors

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

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 49,093	\$ 46,615
Investments	<u>6,279,673</u>	<u>6,433,023</u>
	<u><u>\$ 6,328,766</u></u>	<u><u>\$ 6,479,638</u></u>

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

	<u>2020</u>	<u>2019</u>
Cash	\$ 516,707	\$ 279,060
Pledges receivable	<u>175,222</u>	<u>268,006</u>
	<u><u>\$ 691,929</u></u>	<u><u>\$ 547,066</u></u>

Note 9 - Land, Buildings and Equipment

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

	<u>2020</u>	<u>2019</u>
Land	\$ 7,860,483	\$ 8,209,543
Buildings and improvements	35,813,765	35,832,961
Furniture and equipment	1,775,770	1,342,069
Vehicles	<u>243,841</u>	<u>236,841</u>
	45,693,859	45,621,414
Less accumulated depreciation	<u>(13,297,906)</u>	<u>(12,147,158)</u>
Land, Buildings, and Equipment, Net	<u><u>\$ 32,395,953</u></u>	<u><u>\$ 33,474,256</u></u>

Note 10 - Project Development Costs

Predevelopment costs have been incurred for the Twin Lakes Landing II project in Marysville, Maple Leaf Meadows and New Century, multi-building projects located in Arlington and Everett, respectively and the Sequoia Project located in Everett. The accumulated development costs for the projects at June 30, 2020 were \$1,637,772, \$217,339, \$154,842, \$48,132, respectively, totaling \$2,058,085. Additionally, tenant improvement costs have been incurred for HopeWorks Station II. The accumulated tenant improvement costs at June 30, 2020 were \$81,689.

HOUSING HOPE AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2020**

Note 11 - 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 fixed rate of 3.60%, with a maturity date due upon demand. At June 30, 2020 and 2019, there was an outstanding balance of \$600,000 and \$599,820, respectively. This loan is secured by the investments accounts at UBS.

Heritage Bank Business Loan - The Agency has a \$500,000 business loan intended for operating needs. The business loan has a variable rate of .50 percentage points over the WSJ Prime Index resulting in a rate initially set at 4.00% (4.00% at June 30, 2020) , with a maturity date of February 28, 2021 . At June 30, 2020, there was an outstanding balance of \$400,000. This loan is secured by a Commercial Security Agreement date February 28, 2019 giving the Lender a security interest in: all inventory, chattel paper, accounts, equipment and general Intangible.

JP Morgan Chase Bank LOC - During the year ended June 30, 2020, the Agency utilized the LOC for HopeWorks operating needs. The LOC has a variable interest rate of 2.300 percentage points over the Federal Prime Index (5.55% at June 30, 2020), with a maturity date due upon demand. At June 30, 2020 and 2019, there was an outstanding balance of \$73,548 and \$82,148, respectively.

Note 12 - Long-Term Debt

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

	2020	2019
<u>ACQUISITION AND PREDEVELOPMENT LOANS</u>		
<u>US Bank</u>		
<u>Community Development Investment/EQ2 Loan 0000000026</u>		
Community development equity-equivalent debt investment (EQ2) loan to fund the Housing Opportunity Fund (HOF). Initial unsecured 10-year loan (to 2018) at fixed interest rate of 4% paid quarterly with 5 additional 1-year extensions available on request. This has been extended to 2021. (2502)	\$ 150,000	\$ 150,000
<u>Community Frameworks HHP-11-2</u>		
Community Frameworks Self-Help Homeownership Opportunity Program loan to fund eligible expenses of the Hegger Project in Monroe, Washington. 10-year loan secured by deed of trust on real estate with interest at 0%. Loan is forgivable at maturity date of December 29, 2024. (2777T)	105,000	105,000
<u>Community Frameworks HHP-12-1</u>		
Community Frameworks Self-Help Homeownership Opportunity Program loan to fund eligible expenses of the Parkwood Estates Project in Arlington, Washington. 10-year loan secured by deed of trust on real estate with interest at 0%. Loan is forgivable at maturity date of April 1, 2025. (2777U)	210,000	210,000

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

Note 12 - Continued

	<u>2020</u>	<u>2019</u>
<u>Community Frameworks HHP-15-1</u> Community Frameworks Self-Help Homeownership Opportunity Program loan to fund eligible expenses of the Siegel Properties Subdivision in Sultan, Washington. 10-year loan secured by deed of trust on real estate with interest at 0%. Loan is forgivable at maturity date of June 30, 2027. (2777V)	150,000	150,000
<u>Community Frameworks HHP-16-1</u> Community Frameworks Self-Help Homeownership Opportunity Program loan to fund eligible expenses of the Lake Martha Ridge Subdivision in Stanwood, Washington. 10-year loan secured by deed of trust on real estate with interest at 0%. Loan is forgivable at maturity date of October 2, 2029. (2777W)	135,000	
<u>Community Frameworks HHP-18-1</u> Community Frameworks Self-Help Homeownership Opportunity Program loan to fund eligible expenses of the Lake Martha Ridge Subdivision in Stanwood, Washington. 10-year loan secured by deed of trust on real estate with interest at 0%. Loan is forgivable at maturity date of October 2, 2029. (2777W)	120,000	
<u>HOME/ADDI HCD-10-42-5789-048</u> Mortgage payable secured by real property in original amount of \$88,200, and all payments deferred and principal and interest at 0% to be paid at the end of the program when determined, subject to rent restriction covenant agreement. (2778C)	88,200	88,200
<u>Northern Trust LOC</u> Long-Term Unsecured Investment Bond with interest at 1%, compounded annually, with interest paid semi-annually on June 30 and December 31 each year. Par Value is due and payable in full on March 9, 2023 along with any unpaid accrued interest. (2414)	1,000,000	1,000,000
<u>Heritage Bank Paycheck Protection Program Loan - 100408146</u> In response to the COVID-19 pandemic, the U.S. Congress passed the Coronavirus Aid, Relief, and Economic Securities Act (CARES Act). Included in the CARES Act was the Paycheck Protection Program (PPP) to provide loans to qualifying small businesses and not-for-profit organizations to cover certain eligible expenses. Original amount of \$1,594,080 and an annual interest rate of 1%. Principal and interest are payable in monthly installments beginning November 30, 2020 through maturity on April 11, 2022. (2503)	1,594,080	
<u>Rural Community Assistance Corporation - 0937-HH-02</u> Predevelopment loan for expenses associated with the predevelopment of the Lake Martha Ridge Subdivision in Stanwood, Washington The maximum amount of the loan is \$966,000 with interest at 5.25% and outstanding balance due on November 1, 2020. (2418)	563,500	

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

Note 12 - Continued

	<u>2020</u>	<u>2019</u>
<u>Impact Capital Pre-Development Loan - 20190049</u> Predevelopment loan for expenses associated with the predevelopment of the Lake Martha Ridge Subdivision in Stanwood, Washington The maximum amount of the loan is \$508,970 with interest at 5.69% and outstanding balance due on August 31, 2022. (2419)	305,382	
<u>Impact Capital Pre-Development Loan - 2018202</u> Predevelopment loan for expenses associated with the predevelopment of the Twin Lakes Landing II project, a new project of 60 affordable rental units in Marysville, WA on land currently owned by Housing Hope. The maximum amount of the loan is \$960,240 with interest at 6% and outstanding balance due on November 30, 2021. Loan was assigned to Twin Lake Landing II as part of an asset purchase during the year ended June 30, 2019. (2609)	348,950	
ARLINGTON		
<u>State of Washington - HTF HAP 2-92-410-8A</u> Note payable secured by real property "Arlington" with original amount of \$120,000 and all payments deferred. Noninterest bearing note is due in full October 1, 2019. Note payable was determined to not be forgivable during the year ended June 30, 2019 and was transferred to debt. Debt was paid in full during the year ended June 30, 2020. (2710A)		120,000
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
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)	746,850	764,354
<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)	309,400	321,300
<u>Snohomish County - OCHD AHTF 5-93-491-94</u> Mortgage payable secured by real property "Commerce Building," 0% interest, due and payable in full November, 2043. Subject to low-income housing covenant. (2725B)	75,000	75,000
<u>Snohomish County - HOME 1993 #3</u> Mortgage payable secured by real property "Commerce Building," 7.69% interest. Principal and interest due and payable in full October 4, 2035. Subject to HOME agreement. (2725G)	165,200	165,200

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

Note 12 - Continued

	<u>2020</u>	<u>2019</u>
<u>City of Everett CDBG</u> Mortgage payable secured by real property "Commerce Building," 0% interest, due and payable in full November 14, 2044. (2725H)	50,000	50,000
<u>City of Everett CHIP</u> <u>Commerce Building Rehab - Windows</u> Note payable secured by real property "Commerce Building," with all payments deferred and principal and interest at 3% due and payable November 14, 2044. (2725C)	389,870	389,870
<u>City of Everett</u> <u>Energy EECBG/ARRA Commerce Building</u> Note payable secured by real property "Commerce Building," with all payments deferred and principal and interest at 3% due and payable November 14, 2044. (2725E)	90,000	90,000
<u>City of Everett CHIP</u> <u>Energy EECBG/ARRA Commerce Building - Loan 54167</u> Note payable secured by real property "Commerce Building," with all payments deferred and principal and interest at 3% due and payable November 14, 2044. (2726)	395,147	395,147
CROSSROADS <u>State of Washington Department of Commerce - AHP 5-92-492-02B</u> Note payable secured by real property "Crossroads" with all payments deferred and principal and interest at 0% due and payable in 2025 subject to low-income housing agreement. (2730B)	125,000	125,000
FAIRVIEW APARTMENTS <u>Peoples Bank: WSHFC #5042423-201 Nonprofit Housing Revenue Bond</u> Privately placed bond secured by real property "Fairview Apartments" with interest at 2.98% payable in 360 monthly payments of \$5,498 beginning June 30, 2016 through June 1, 2036, and then equal monthly payments with interest at the Adjusted Variable Note Rate through maturity date of June 1, 2046. (2789D)	1,186,808	1,216,408
<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)	5,988	12,257
<u>Housing Authority of Snohomish County</u> Note payable secured by real property "Fairview Apartments" with simple interest at 1% accruing until May 31, 2031. Then monthly payments of \$21,016 principal and interest through April 30, 2046 with balloon payment due May 31, 2046. (2789I)	542,370	542,370

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

Note 12 - Continued

	<u>2020</u>	<u>2019</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)	433,652	445,317
HOPE VILLAGE		
<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)	120,000	135,000
<u>City of Everett CDBG</u> Assigned note payable under the Community Development Block Grant Program, noninterest bearing, principal due upon maturity at November 2027, collateralized by investment in real estate. (2745A)	133,000	133,000
<u>City of Everett CDBG</u> Assigned note payable under the Community Development Block Grant Program, noninterest bearing, principal due upon maturity at November 2027, collateralized by investment in real estate. (2745B)	100,200	100,200
<u>Snohomish County HUD</u> Assigned note payable under the HUD Supportive Housing Loan program, noninterest bearing, principal due upon maturity at November 2047, collateralized by investment in real estate. (2745E)	400,000	400,000
<u>Snohomish County OCHD HOME</u> Assigned note payable under the HUD HOME Investment Partnerships Program, noninterest bearing, principal due upon maturity at November 2047, collateralized by investment in real estate. (2745D)	289,000	289,000
<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

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

Note 12 - Continued

	<u>2020</u>	<u>2019</u>
HOPE VILLAGE II		
<u>Opus Bank</u> Assigned note payable in the original amount of \$415,000, 5.75% interest with monthly payments including principal and interest of \$2,445 with a balloon payment of the entire unpaid balance of principal and interest due on April 1, 2024. The loan is secured by a deed of trust on real estate "Hope Village II" (2774).	278,212	290,877
<u>Washington State Department of Commerce - DCTED 02-49300-129</u> Assigned note payable in the original amount of \$210,000, 1.00% interest compounded quarterly with quarterly payments including principal and interest of \$1,594 with the unpaid balance of principal and interest due on July 31, 2044. The loan is secured by a deed of trust on real estate "Hope Village II". (2774A)	138,388	142,123
<u>Snohomish County HOME</u> Assigned note payable in the original amount of \$135,000, noninterest bearing with the unpaid balance of principal due on March 31, 2054. The loan is secured by a deed of trust on real estate "Hope Village II". (2774B)	135,000	135,000
HOPEWORKS SOCIAL INVESTORS		
Collateral backed notes secured by real property "HopeWorks Station", interest only payments made annually at the rate of 2% for 3 years, increasing to 3% for the next 2 years, and increasing to 4% until the maturity date of July 1, 2025 when the principal balance, along with any unpaid interest, is due and payable. A present value discount of \$406,159 has been recognized and reported at June 30, 2020, on the social investor notes due to the below market interest rate loans. (2648)	2,544,000	2,544,000
Collateral backed notes secured by real property "HopeWorks Station", interest only payments made annually at the rate of 2% for 3 years, increasing to 3% for the next 2 years with maturities through date of June 2024, when the principal balance, along with any unpaid interest, is due and payable. A present value discount of \$74,071 has been recognized and reported at June 30, 2020, on the social investor notes due to the below market interest rate loans. (2648)	410,000	410,000

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

Note 12 - Continued

	<u>2020</u>	<u>2019</u>
<u>Howarth Trust</u> Collateral backed note secured by real property "HopeWorks Station", interest only payments made annually at the rate of 2% for 3 years, increasing to 3% for the next 2 years, and increasing to 4% until the maturity date of July 1, 2025 when the principal balance, along with any unpaid interest, is due and payable. The Agency does not consider the present value discount on the loan to be material to the financial statement and thus \$0 has been recognized at June 30, 2020. (2647)	200,000	200,000
<u>Boeing Employees Credit Union</u> Collateral backed note secured by real property "HopeWorks Station", interest only payments made annually at the rate of 2% for 3 years, increasing to 3% for the next 2 years, and increasing to 4% until the maturity date of October 10, 2026 when the principal balance, along with any unpaid interest, is due and payable. A present value discount of \$37,499 has been recognized and reported at June 30, 2020, on the social investor notes due to the below market interest rate loans. (2789M)	346,000	
HOPEWORKS STATION		
<u>Enterprise Community Loan Fund, Inc.</u> Note payable secured by Leasehold Deed of Trust in real property "3311 Broadway Ave, Everett, WA", in addition to an unconditional guaranty of payment by Housing Hope. Interest only payments at 5.85% payable monthly. The debt was paid in full during the year ended June 30, 2020. (2789K)		340,135
KENNEDY COURT		
<u>CITY OF EVERETT/SNOHOMISH COUNTY HOME LOAN</u> Note payable secured by deed of trust on real property "Kennedy Court Apartments, Everett, WA" with all payments deferred and principal and interest at 3.0% to be paid at the completion of the term of the Amended HOME Loan Agreement on September 30, 2055. (2655B)	573,298	573,298
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)	1,841,654	1,841,654

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

Note 12 - Continued

	<u>2020</u>	<u>2019</u>
<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)	1,767,461	1,800,162
MAPLE LEAF MEADOWS		
<u>State of Washington Department of Commerce - 02-49300-074</u> Note payable secured by real property "Maple Leaf Meadows" with all payments deferred for 25 years with interest at 3% accruing during the deferral period, maturing November 1, 2047. The principal amount including accumulated interest to be amortized for 10 years with interest at 3% with annual payments of \$98,182 beginning 2027 and ending 2047 subject to a low-income housing agreement. (2602C)	400,000	400,000
<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 July 2018. This loan was paid in full on April 3, 2020. (2602E)		1,164,330
<u>Boeing Employees' Credit Union</u> Note Payable secured by Deed of Trust to Boeing Employees' Credit Union on "Maple Leaf Meadows" property. Due in monthly installments of \$10,228 including principal and interest at 3.04%. Maturity date April 10, 2030. (2602F)	2,391,896	
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)	1,011,353	1,041,230
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

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

Note 12 - Continued

	<u>2020</u>	<u>2019</u>
<u>JP Morgan Chase Bank</u> <u>99-04291494-5 - EHA Low-Income Housing Revenue Bond, 2011</u> Original amount of \$700,000 secured by Deed of Trust to JP Morgan Chase Bank on "New Century House" property. Due in monthly installments of \$3,884 including principal and interest at 5.29%, with a balloon payment due June 2022. This loan was paid in the year ended June 30, 2020. (2601E)		452,696
<u>Boeing Employees' Credit Union</u> Note Payable secured by Deed of Trust to Boeing Employees' Credit Union on "New Century Village" property. Due in monthly installments of \$4,301 including principal and interest at 2.7%. Maturity date June 10, 2030. (2601F)	1,055,000	
<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
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)	984,698	1,013,541
PILCHUCK PLACE AND WOODS CREEK VILLAGE		
<u>State of Washington Department of Commerce - HTF 11-47104-005</u> Note payable secured by real property "Woods Creek Village" with all payments deferred until 2043 with interest at 1% compounding quarterly during the deferral period. The principal amount including deferred interest will be amortized for 10 years with quarterly payments of \$17,745 due and payable beginning June 30, 2043 and ending March 31, 2053. (2781B)	500,000	500,000
<u>Snohomish County - HOME HCS 12-42-1201-251</u> Note payable in the original amount of \$600,000 secured by real property "Pilchuck Place Townhomes" with all payments deferred until 2043 with interest accruing during the deferral period at 1%. Monthly payments in an amount to be determined by September 1, 2043, when payments begin, until September 2052. (2782A)	600,000	600,000

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

Note 12 - Continued

	<u>2020</u>	<u>2019</u>
<u>Snohomish County - HOME HCS 12-42-1104-251</u> Note payable in the original amount of \$532,141 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 (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)	1,484,633	1,519,542
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)	344,879	387,063
<u>CITY OF EVERETT CDBG</u> Note payable secured by real property "Tomorrow's Hope" with all payments deferred and principal and interest at 3% due at maturity date of January 14, 2041. The loan may be forgiven 100% on January 14, 2031 as long as the project continues to operate. (2789J)	45,432	45,432
TWIN LAKES LANDING		
<u>State of Washington Housing Finance Commission - LAP 2013-27</u> Note payable secured by real property "Twin Lakes Landing II" with all payments deferred and principal and interest at 1% due and payable at the maturity date of October 31, 2021. (2607)	708,525	708,525
VISION HOUSE		
<u>State of Washington Department of Commerce - HFU 98-49300-484</u> Note payable secured by real property "Vision House" with annual principal payments of \$169 only with interest at 0% until 2049 subject to a low-income housing agreement. (2575A)	4,890	5,059

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

Note 12 - Continued

	<u>2020</u>	<u>2019</u>
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)	404,040	417,613
<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)	197,278	203,915
<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>187,504</u>	<u>195,189</u>
Total	31,165,857	26,688,126
Less current portion	(1,633,154)	(863,399)
Less present value discount	(517,388)	(576,920)
Less unamortized deferred financing fees	<u>(110,480)</u>	<u>(111,900)</u>
Long-Term Debt, Net	<u>\$ 28,904,835</u>	<u>\$ 25,135,907</u>

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

Note 12 - Continued

Principal maturities are as follows:

For the Year Ending June 30,

2021	\$ 1,633,154
2022	1,121,394
2023	1,567,373
2024	665,916
2025	3,726,210
Thereafter	<u>22,451,810</u>
	<u><u>\$ 31,165,857</u></u>

The Agency has multiple very low interest or noninterest bearing notes held by governmental agencies. If reported, the in-kind contributions and mortgage interest expenses related to these notes would have been approximately \$203,000 and \$330,000 for the years ended June 30, 2020 and 2019, 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.

Note 13 - Forgivable Loans

The Agency received cumulative forgivable loan proceeds of \$10,096,999 through the year ended June 30, 2020, representing a contingent liability. Under terms of the agreements, the facilities funded by these proceeds must be used for the specific purpose intended in the loan documents, generally to renovate, construct or acquire buildings to be used in its operations. The forgivable loans are secured by properties at those sites. As management believes the conditions related to initial entitlement to these funds has been met, the Agency has entitlement to the funds and to use the underlying assets for the expected useful lives. Since these loans are either forgivable or are non-recourse loans with no payments due prior to the expiration of the useful life of the property, the proceeds from these loans have been recognized as revenues with donor restrictions in the year received. The facilities are restricted to 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 restricted balances are being released over the terms of the agreements (Note 7). The full original proceeds, including accrued interest if applicable, 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, thus representing a contingent liability as noted above. As of June 30, 2020, 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.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

Note 13 - Continued

Forgivable loans are as follows at June 30:

	<u>2020</u>	<u>2019</u>
FAIRVIEW		
<u>Snohomish County</u>		
<u>SCHSD HOME HCD-10-42-1003-113(1)</u>		
Note payable secured by real property "Fairview", the original amount of \$494,933 and all payments deferred and principal and interest at 0% to be forgiven in 2051 subject to the HOME agreement. (2789G)F	\$ 356,260	\$ 367,783
<u>State of Washington</u>		
<u>Department of Commerce 06-94100-055</u>		
Note payable secured by real property "Fairview", the original amount of \$850,000 and all payments deferred and principal and interest at 0% to be forgiven in 2047 subject to use restriction covenant agreement. (2789H)F	601,415	623,758
<u>State of Washington</u>		
<u>Department of Commerce 06-94100-055</u>		
Note payable secured by real property "Fairview", the original amount of \$950,000 and all payments deferred and principal and interest at 0% to be forgiven in 2061 subject to use restriction covenant agreement. (2789F)F	704,254	721,466
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	249,695	266,800
HOPE VILLAGE II		
<u>State of Washington - 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 2044 subject to a use restriction covenant agreement. (2774C)F	123,702	129,100
HOPEWORKS STATION II		
<u>City of Everett</u>		
Loan amount not to exceed \$400,000 at 3% simple interest. All payments will be deferred to be forgiven in 2043 subject to a use restriction stated in Loan Terms section of agreement. (2789L)F	361,000	376,200

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

Note 13 - Continued

	<u>2020</u>	<u>2019</u>
<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	32,219	33,219
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	393,609	407,528
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	289,787	298,987
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	820,737	847,844
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	149,660	154,420

HOUSING HOPE AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2020**

Note 13 - Continued

	2020	2019
<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	39,680	46,080
<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	31,726	35,726
<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	73,702	80,677
<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	182,898	189,851
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	817,993	844,243
<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 2020 contingent on compliance with eligible purposes in the homeownership program. (2777D)F	59,289	72,789

HOUSING HOPE AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2020**

Note 13 - Continued

	2020	2019
<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 May 2021 contingent on compliance with eligible purposes in the homeownership program. (2777P)F	113,227	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	87,781	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	81,250	95,836
<u>Community Frameworks SHOP</u>		
<u>Self-Help Homeownership Project HHP-10-1</u>		
Note payable with loan agreement at 0% interest secured by 13 lots of real property "Monroe Main Street" with original amount of \$195,000. Funds to be repaid with the sale of the Monroe Main Street lots to the Team HomeBuilding families and deposited in a designated Housing Hope revolving fund account for re-use on eligible activities. One-third of the loan may be forgiven at the end of the applicable HUD funding cycle. The balance may be forgiven in 2023 contingent on compliance with eligible purposes in the homeownership program. (2777S)F	156,000	175,500

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

Note 13 - Continued

	<u>2020</u>	<u>2019</u>
TOMORROW'S HOPE		
<u>City of Everett</u> <u>CDBG Tomorrow's Hope</u> Promissory note secured by real property "Tomorrow's Hope" with original amount of \$55,900 and all payments deferred and principal and interest at 3% simple to be forgiven in 2026 subject to use as childcare facility for low and moderate income families. (2752A)F	13,863	16,099
<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	5,890	10,890
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	57,349	59,524
<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	13,211	13,888
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	162,374	168,731

HOUSING HOPE AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2020**

Note 13 - Continued

	<u>2020</u>	<u>2019</u>
<u>Snohomish County</u> <u>OHCD AHTF 2003#3</u> Note payable secured by real property "Sultan 5-plex" with original amount of \$76,875 and all payments deferred and principal and interest at 0% to be forgiven in 2045 subject to use as low-income housing. (2787C)F	47,794	49,716
<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	46,767	48,642
<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	<u>319,786</u>	<u>329,542</u>
Total Restricted Forgivable Loans Balance	<u>\$ 6,392,918</u>	<u>\$ 6,701,847</u>

Note 14 - 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 net assets with donor-restrictions - endowment corpus (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

HOUSING HOPE AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2020**

Note 14 - Continued

The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions - endowment corpus is classified as net assets with donor restrictions - endowment accumulated earnings 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:

	Without Donor Restriction	With Donor Restriction	Total
Donor restricted endowment funds	\$ -	\$ 6,455,446	\$ 6,455,446
Board designated quasi-endowment funds	<u>2,568,061</u>		<u>2,568,061</u>
Endowment Net Assets, June 30, 2020	<u>\$ 2,568,061</u>	<u>\$ 6,455,446</u>	<u>\$ 9,023,507</u>
Endowment Net Assets, June 30, 2019	<u>\$ 3,105,431</u>	<u>\$ 6,413,035</u>	<u>\$ 9,518,466</u>

Changes to endowment net assets for the year ended June 30, 2020, are as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, June 30, 2019	\$ 3,105,431	\$ 6,413,035	\$ 9,518,466
Endowment investment return	463,716	33,968	497,684
New contributions	22,523	9,532	32,055
Repayment of internal loans	32,171		32,171
Appropriation of endowment for expenditure/internal loans	<u>(1,055,780)</u>	<u>(1,089)</u>	<u>(1,056,869)</u>
Endowment Net Assets, June 30, 2020	<u>2,568,061</u>	<u>6,455,446</u>	<u>9,023,507</u>
Loans for internal projects	<u>(1,259,889)</u>		<u>(1,259,889)</u>
Net Invested Endowment Net Assets, June 30, 2020	<u>\$ 1,308,172</u>	<u>\$ 6,455,446</u>	<u>\$ 7,763,618</u>

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

Note 14 - Continued

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, 2020 and 2019, 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 board designated quasi-endowment. The loans will be repaid according to the Board approved payment plans for each individual loan. As of June 30, 2020 and 2019, the balance on the loan was \$1,259,889 and \$1,292,060, respectively.

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.

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 with a target spending rate of approximately 5%. 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 15 - Affiliations and Related Party

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

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

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

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

- To Building Credits, a partnership management fee of \$7,000, increasing by 3% each year. For the year ended June 30, 2020, \$10,280 of partnership management fees were reflected in the consolidated financial statements.
- To Building Credits, a property management fee of \$9,240, which is \$55 per unit for the additional six months for the 14 unit complex.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

Note 15 - Continued

- To Housing Hope for reimbursable administrative expenses related to property management salaries, insurance expense, and other miscellaneous expenses. For the year ending June 30, 2020, \$5,214 of reimbursable expenses were reflected in the consolidated financial statements.

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

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

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

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

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

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

- To Building Credits, a company management fee of \$10,000, increasing by 3% each year. For the year ended June 30, 2020, \$14,258 of partnership management fees were reflected in the consolidated financial statements.
- To Building Credits, a property management fee of \$16,500, which is \$55 per unit for the additional six months for the 25 unit complex.
- To Housing Hope for reimbursable administrative expenses related to property management salaries, insurance expense, and other miscellaneous expenses. For the year ending June 30, 2020, \$6,857 of reimbursable expenses were reflected in the consolidated financial statements.
- To Housing Hope repayment of loans it has made to the LLC. For the year ended June 30, 2020, \$14,834 of notes receivable were reflected in the consolidated financial statements.

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

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

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

Note 15 - Continued

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, 2020, \$281,053 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, 2020, \$1,320,000 of loan funds were reflected in the consolidated financial statements.
- To Housing Hope Properties, a company management fee of \$21,855, increasing by 3% each year. For the year ended June 30, 2020, \$22,510 of partnership management fees were reflected in the consolidated financial statements.
- To Housing Hope Properties, a property management fee of \$31,020, which is \$55 per unit for the additional six months for the 47 unit complex.
- To Housing Hope for reimbursable administrative expenses related to property management salaries, insurance expense, and other miscellaneous expenses. For the year ending June 30, 2020, \$90,483 of reimbursable expenses 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.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

Note 15 - Continued

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

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

- To Housing Hope Properties payment of a portion of the Developer Fee. For the year ending June 30, 2020, \$850,425 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, 2020, \$624,546 of loan funds were reflected in the consolidated financial statements.
- To Housing Hope for reimbursable administrative expenses related to property management salaries, insurance expense, and other miscellaneous expenses. For the year ending June 30, 2020, \$394,767 of reimbursable expenses were reflected in the consolidated financial statements.
- To Housing Hope Properties, a property management fee of \$33,000, which is \$55 per unit for the additional six months for the 50 unit complex.
- To Housing Hope Properties, a partnership management fee of \$10,300, increasing by 3% each year. For the year ended June 30, 2020, \$10,609 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 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.

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

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

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

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

Note 15 - Continued

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

- To HopeWorks Social Enterprise Loan Funds made to the LLLP for the year ending June 30, 2020, \$1,092,319 of loan funds were reflected in the consolidated financial statements.
- To Housing Hope for reimbursable administrative expenses related to property management salaries, insurance expense, and other miscellaneous expenses. For the year ending June 30, 2020, \$42,003 of reimbursable expenses were reflected in the consolidated financial statements.
- To Housing Hope Properties, a property management fee of \$35,100 which is \$45 per unit per month for the 65 unit complex.
- To Housing Hope Properties, a partnership management fee of \$36,167, increasing by 3% each year. For the year ended June 30, 2020, \$36,167 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 HopeWorks Station Residential LLLP the agreement.

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

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

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

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

Possession Sound Properties Limited Liability Company - The Agency is affiliated with Possession Sound Properties Landing Limited Liability Company (Possession Sound Properties LLC).

Possession Sound Properties LLC was formed on March 21, 2018, to construct and operate a low-income housing complex in, Washington. Housing Hope Properties was the Sole Member at incorporation.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

Note 15 - Continued

Possession Sound Properties LLC was amended on December 12, 2018 with Housing Hope Properties withdrawing as the Sole Member and PSP Manager LLC entering as the Sole Member. PSP Manager LLC was amended on April 19, 2019 with Housing Hope Properties becoming the Managing Member with 79% interest and the Archdiocesan Housing Authority becoming a member with 21% interest. Possession Sound Properties LLC was amended on April 19, 2019 with PSP Manager LLC 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 Possession Sound Properties LLC agreement, Housing Hope Properties and Housing Hope are to receive the following:

- To Housing Hope Loans Funds made to the LLC. For the year ending June 30, 2020, \$4,435,573 and \$187,566 of loan funds were reflected in the consolidated financial statements.
- To Housing Hope Properties, a property management fee of \$31,320, which is \$45 per unit per month for the 50 unit complex.
- To Housing Hope, a developer fee of \$655,125 for the year ended June 30, 2020.
- To Housing Hope for reimbursable administrative expenses related to property management salaries, insurance expense, and other miscellaneous expenses. For the year ending June 30, 2020, \$84,526 of reimbursable expenses 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 Possession Sound Properties 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 and related party are as follows at June 30:

	Notes Receivable	Accrued Interest	Less Current Portion	Total Long- Term Portion
New Century Village	\$ 14,834	\$ -	\$ (14,834)	\$ -
Monroe Family Village	1,601,053	388,075	(150,000)	1,839,128
Twin Lakes Landing	1,474,971	120,586	(280,000)	1,315,557
HopeWorks Station Residential	1,092,319	41,219	(200,000)	933,538
HopeWorks Station Enterprises	8,517,000			8,517,000
Possession Sound Properties	5,278,264	156,181	(450,000)	4,984,445
June 30, 2020 Total	<u>\$ 17,978,441</u>	<u>\$ 706,061</u>	<u>\$ (1,094,834)</u>	<u>\$ 17,589,668</u>
June 30, 2019 Total	<u>\$ 17,802,860</u>	<u>\$ 455,044</u>	<u>\$ (1,151,697)</u>	<u>\$ 17,106,207</u>

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

Note 15 - 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, 2020 Total</u>	<u>June 30, 2019 Total</u>
Avondale	\$ 5,214	\$ -	\$ 5,214	\$ 326
Hope Village II LLC				
New Century Village	6,857	137,609	144,466	140,548
Monroe Family Village	90,483	89,516	179,999	62,892
Twin Lakes Landing	394,767	21,265	416,032	191,886
HopeWorks Station Residential	42,003	4,166	46,169	206,165
Possession Sound Properties	84,526		84,526	(53,351)
June 30, 2020 Total	<u>\$ 623,850</u>	<u>\$ 252,556</u>	<u>\$ 876,406</u>	<u>\$ 548,466</u>
June 30, 2019 Total	<u>\$ 328,884</u>	<u>\$ 219,582</u>	<u>\$ -</u>	<u>\$ 548,466</u>

Note 16 - 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, 2020, the Agency had deposits with the Trust of \$132,945 which are reported in the consolidated statement of financial position as funds held in trust. As of June 30, 2020, the Agency estimated a liability for incurred-but-not-reported unemployment claims of \$26,821, which is included in accounts payable and accrued expenses in the consolidated statement of financial position.

Note 17 - Property Lease Commitments

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

Future minimum lease payments to be received are as follows:

For the Year Ending June 30,

2021	\$ 35,337
2022	21,600
2023	21,600
	<u>78,537</u>
	<u>\$ 78,537</u>

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

Note 17 - Continued

The Agency is a lessee of the commercial space developed by the lessor for a building commonly known as HopeWorks Station II. The lessor is a related party (Hopeworks Station Enterprises). The Agency was entitled to occupy the property when the Project had been substantially completed by the Lessor. The Project was completed in September 2019. The lease is a noncancelable lease with annual lease payments are due every December and the lease term expires December 31, 2043. Deferred rent liability represents the unamortized portion of deferred lease payments on operating leases for space and is amortized over the life of the lease using the straight-line method.

Future minimum lease payments to be paid are as follows:

For the Year Ending June 30,

2021	\$ 105,000
2022	105,000
2023	105,000
2024	105,000
2025	105,000
Thereafter	<u>12,886,500</u>
	<u><u>\$ 13,411,500</u></u>

Note 18 - Liquidity and Availability of Financial Assets

The Agency regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Agency has various sources of liquidity at its disposal, including cash and cash equivalents, marketable equity securities, and lines of credit. In addition to financial assets available to meet general expenditures over the next 12 months, the Agency operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor restricted resources.

The following reflects the Agency's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date. Amounts not available include amounts set aside for long-term investing in the quasi-endowment and board reserves that could be drawn upon if the governing board approves that action.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

Note 18 - Continued

Financial assets available for general expenditure within one year of the date of the statements of financial position are as follows at June 30:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 2,722,993	\$ 1,574,567
Short-term investments	124,800	124,800
Accounts, grants and contracts and pledges receivable	826,693	752,826
Due from affiliates	876,407	548,466
Notes receivable, accrued interest and developer fees due from affiliates	18,684,502	18,257,904
Assets designated by board for long-term reserves and investment in long-term assets	1,569,709	1,895,578
Assets restricted by donors for the acquisition of long-term assets	691,929	547,066
Assets restricted by donors for endowments and long-term reserves	6,328,766	6,479,639
Loan proceeds restricted for capital projects	1,573,061	
Self-help family loans receivable	462,344	512,433
Restricted reserves and deposits	<u>534,696</u>	<u>314,064</u>
 Total financial assets	 34,395,900	 31,007,343
 Receivables scheduled to be collected in more than one year	 (18,132,146)	 (17,658,268)
Assets restricted by donors for the acquisition of long-term assets	(691,929)	(547,066)
Contractually restricted reserves and deposits	(534,696)	(314,064)
Loan proceeds restricted for capital projects	(1,573,061)	
Board reserves	(261,537)	(111,763)
Donor endowment funds	(6,455,446)	(6,413,035)
Quasi-endowment	<u>(2,568,061)</u>	<u>(3,105,431)</u>
 Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	 <u>\$ 4,179,024</u>	 <u>\$ 2,857,716</u>

Note 19 - Coronavirus Pandemic

In December 2019, a novel strain of coronavirus (COVID-19) was identified, and the World Health Organization declared the outbreak to constitute a "Public Health Emergency of International Concern." The COVID-19 pandemic caused business disruption through mandated and voluntary closing of multiple businesses and organizations. The Agency complied with changes mandated by Washington state's stay at home order beginning March 25, 2020. While the situation is expected to be temporary, the extent of the impact of COVID-19 on the Agency's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and the effect on the Agency's families, employees and vendors, none of which can be reliably predicted at this time. Management expects to experience somewhat decreased revenue coupled with somewhat increased costs related to protective health measures implemented. Management continues to monitor events and conditions as they unfold and has established strategies to respond accordingly.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2020

Note 19 - Continued

In response to the COVID-19 pandemic, the U.S. Congress passed the Coronavirus Aid, Relief, and Economic Securities Act (CARES Act). Included in the CARES Act was the Paycheck Protection Program (PPP) to provide loans to qualifying small businesses and not-for-profit organizations to cover certain eligible expenses. On April 11, 2020, the Agency obtained an unsecured loan under the PPP with a principal balance of \$1,594,080 and an annual interest rate of 1%. Principal and interest are payable in monthly installments beginning November 30, 2020 through maturity on April 11, 2022. Management expects that all or a portion of the PPP loan will be forgiven within the next fiscal year, based on the Agency meeting certain terms and conditions of forgiveness.

Note 20 - Subsequent Events

Subsequent to year end, Housing Hope signed a purchase and sale agreement on August 7, 2020 to purchase 19 lots for the Team Homebuilding site for a sales price of \$599,000. The Vodnick Plat is located in Sultan, WA.

SUPPLEMENTARY INFORMATION

HOUSING HOPE AND SUBSIDIARIES

Consolidating Statement of Financial Position - Assets
June 30, 2020
(With Comparative Totals for 2019)

	Housing Hope	Building Credits	Housing Hope Properties	HopeWorks	Subtotal	Eliminations	2020 Consolidated Total	2019 Consolidated Total
Assets								
Current Assets:								
Cash and cash equivalents	\$ 1,784,253	\$ 80,692	\$ 656,874	\$ 201,174	\$ 2,722,993	\$ -	\$ 2,722,993	\$ 1,574,567
Short-term investments	124,800				124,800		124,800	124,800
Accounts receivable, net	254,548			7,173	261,721		261,721	262,853
Grants and contracts receivable	296,117		35,000	7,253	338,370		338,370	300,993
Due from affiliates	451,503	156,178	256,173	12,553	876,407		876,407	548,466
Current portion of notes receivable, accrued interest and deferred developer fees due from affiliates	853,629			241,205	1,094,834		1,094,834	1,151,697
Pledges receivable, current portion				138,592	138,592		138,592	149,352
Real estate inventory	1,143,217		154,842		1,298,059		1,298,059	6,700
Prepaid expenses and other current assets	94,466			46,225	140,691		140,691	77,094
Total Current Assets	5,002,533	236,870	1,102,889	654,175	6,996,467		6,996,467	4,196,522
Assets Whose Use is Limited or Restricted:								
Assets designated by board for long-term reserves and investment in long-term assets	1,418,078			151,631	1,569,709		1,569,709	1,895,579
Assets restricted by donors for the acquisition of long-term assets				691,929	691,929		691,929	547,066
Assets restricted by donors for endowments and long-term reserves	1,328,766			5,000,000	6,328,766		6,328,766	6,479,638
Loan proceeds restricted for capital projects	1,573,061				1,573,061		1,573,061	
Restricted reserves and deposits	534,696				534,696		534,696	314,064
Other Assets:								
Pledges receivable, long-term portion	61,470				61,470		61,470	39,628
Self-help family loans receivable			462,344		462,344		462,344	512,433
Funds held in trust	132,945				132,945		132,945	57,405
Land, building, and equipment, net	28,865,895		1,332,914	2,197,144	32,395,953		32,395,953	33,474,256
Notes receivable, accrued interest and deferred developer fees due from affiliates, net of current portion	7,124,799		1,055,550	9,409,319	17,589,668		17,589,668	17,106,207
Project development costs	2,058,085			81,689	2,139,774		2,139,774	1,388,981
Investment in limited partnerships and limited liability companies		1,339,563	10		1,339,573		1,339,573	1,339,770
Total Assets	\$ 48,100,328	\$ 1,576,433	\$ 3,953,707	\$ 18,185,887	\$ 71,816,355	\$ -	\$ 71,816,355	\$ 67,351,549

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HOUSING HOPE AND SUBSIDIARIES

**Consolidating Statement of Financial Position - Liabilities and Net Assets
June 30, 2020
(With Comparative Totals for 2019)**

	Housing Hope	Building Credits	Housing Hope Properties	HopeWorks	Subtotal	Eliminations	2020 Consolidated Total	2019 Consolidated Total
Liabilities and Net Assets								
Current Liabilities:								
Short-term borrowings	\$ 999,893	\$ -	\$ -	\$ 73,655	\$ 1,073,548	\$ -	\$ 1,073,548	\$ 1,431,968
Accounts payable and accrued expenses	1,026,856	91,330	701,607	52,487	1,872,280		1,872,280	1,114,709
Deferred rent liability	15,535				15,535		15,535	9,006
Current portion of accrued interest	45,599			54,186	99,785		99,785	99,228
Current portion of long-term debt	1,633,154				1,633,154		1,633,154	863,399
Total Current Liabilities	3,721,037	91,330	701,607	180,328	4,694,302		4,694,302	3,518,310
Accrued long-term expenses			243,954		243,954		243,954	215,300
Accrued interest on long-term debt	1,393,396			45,250	1,438,646		1,438,646	1,286,609
Deferred rent liability				319,812	319,812		319,812	
Long-term debt, net of current portion and unamortized deferred financing fees	24,848,493		842,211	3,214,131	28,904,835		28,904,835	25,135,907
Total Liabilities	29,962,926	91,330	1,787,772	3,759,521	35,601,549		35,601,549	30,156,126
Net Assets:								
Without donor restriction-								
Undesignated	8,427,692	1,485,103	1,160,614	8,326,897	19,400,306		19,400,306	15,652,576
Designated by the Board of Directors	2,616,389		213,209		2,829,598		2,829,598	3,408,813
Total without donor restriction	11,044,081	1,485,103	1,373,823	8,326,897	22,229,904		22,229,904	19,061,389
With donor restriction-								
With donor restriction for time or purpose	6,185,854		792,112	1,099,469	8,077,435		8,077,435	12,229,932
With donor restriction in perpetuity	907,467			5,000,000	5,907,467		5,907,467	5,904,102
Total with donor restriction	7,093,321		792,112	6,099,469	13,984,902		13,984,902	18,134,034
Total Net Assets	18,137,402	1,485,103	2,165,935	14,426,366	36,214,806		36,214,806	37,195,423
Total Liabilities and Net Assets	\$ 48,100,328	\$ 1,576,433	\$ 3,953,707	\$ 18,185,887	\$ 71,816,355	\$ -	\$ 71,816,355	\$ 67,351,549

See independent auditor's report.

HOUSING HOPE AND SUBSIDIARIES

**Consolidating Statement of Activities
June 30, 2020
(With Comparative Totals for 2019)**

	Housing Hope	Building Credits	Housing Hope Properties	HopeWorks	Subtotal	Eliminations	2020 Consolidated Total	2019 Consolidated Total
Public Support, Revenues and Gains:								
Public support-								
Contributions	\$ 1,726,540	\$ -	\$ 10,000	\$ 844,783	\$ 2,581,324	\$ -	\$ 2,581,323	\$ 9,326,963
In-kind contributions	38,016			215,104	253,120		253,120	288,704
In-kind contribution of long-term assets								2,876,928
Contributions for endowments	3,365				3,365		3,365	
Forgivable loan proceeds								390,000
United Way	272,500				272,500		272,500	337,500
Total public support	2,040,421		10,000	1,059,887	3,110,309		3,110,308	13,220,095
Fees and grants from governmental agencies	1,304,648		455,828	236,216	1,996,692		1,996,692	3,746,161
Other revenue, gains and (losses)-								
Program service fees and rents	4,624,977		333	1,146,441	5,771,751		5,771,751	6,207,949
Management and development fees	242,105	41,997	1,589,677		1,873,779		1,873,779	237,650
Gain on sale of land, buildings and equipment								
Interest and other income (loss)	536,413	(15)	37,511	307,611	881,520		881,520	1,022,472
Gain (loss) on sale of real estate inventory and other assets	442,127			(391,792)	50,335		50,335	2,229,972
Total other revenue	5,845,622	41,982	1,627,521	1,062,260	8,577,385		8,577,385	9,698,043
Total Public Support, Revenue and Gains	\$ 9,190,691	\$ 41,982	\$ 2,093,349	\$ 2,358,363	\$ 13,684,386	\$ -	\$ 13,684,385	\$ 26,664,299

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HOUSING HOPE AND SUBSIDIARIES

Consolidating Statement of Activities (Continued)
June 30, 2020
(With Comparative Totals for 2019)

	Housing Hope	Building Credits	Housing Hope Properties	HopeWorks	Subtotal	Eliminations	2020 Consolidated Total	2019 Consolidated Total
Expenses:								
Salary and wages	\$ 4,993,777	\$ 497	\$ 532,870	\$ 1,324,933	\$ 6,852,077	\$ -	\$ 6,852,077	\$ 6,599,198
Payroll taxes	528,746	44	60,668	160,300	749,758		749,758	654,104
Employee benefits	500,914		56,856	128,543	686,313		686,313	700,089
Total payroll costs	6,023,437	541	650,394	1,613,776	8,288,148		8,288,148	7,953,391
Professional fees	520,662		12,300	79,000	611,962		611,962	347,451
Supplies	133,067		1,803	132,981	267,851		267,851	307,783
Printing and postage	46,226		9,601	5,034	60,861		60,861	53,258
Information technology	179,548		5,803	37,706	223,057		223,057	225,113
Occupancy	587,354		19,824	514,157	1,121,335		1,121,335	764,967
Maintenance and repairs	256,319		189,512	32,053	477,884		477,884	558,573
Equipment and furniture	234,559		2,564	30,619	267,742		267,742	173,185
Vehicles	12,376		1,985	51,760	66,121		66,121	59,685
Insurance	145,071		3,955	21,945	170,971		170,971	180,407
Education and training	22,263		14,217	15,882	52,362		52,362	59,796
Mileage and travel	43,659		8,728	3,413	55,800		55,800	81,972
Client assistance	124,540		857	6,376	131,773		131,773	156,874
Interest, taxes and fees	984,655	375	8,273	140,446	1,133,749		1,133,749	1,180,987
Marketing and advertising	16,218		894	35,439	52,551		52,551	39,874
Miscellaneous	99,442		90	244,381	343,913		343,913	316,357
Total expenses before depreciation and amortization	9,429,396	916	930,800	2,964,968	13,326,080		13,326,080	12,459,673
Depreciation and amortization	1,209,647		1,497	127,778	1,338,922		1,338,922	1,394,186
Total Expenses	10,639,043	916	932,297	3,092,746	14,665,002		14,665,002	13,853,859
Net change in net assets	(982,524)	41,066	695,224	(734,383)	(980,617)		(980,617)	12,810,440
Net assets beginning of year	19,371,568	1,552,830	1,436,781	14,834,244	37,195,423		37,195,423	24,384,983
Transfer to (from)	(251,642)	(108,793)	33,930	326,505				
Net Assets, End of Year	\$ 18,137,402	\$ 1,485,103	\$ 2,165,935	\$ 14,426,366	\$ 36,214,806	\$ -	\$ 36,214,806	\$ 37,195,423

See independent auditor's report.