



HOUSING HOPE AND SUBSIDIARIES

Consolidated Financial Statements
For the Year Ended June 30, 2014

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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, 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2014, 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.

CLARK NUBER

Certified Public
Accountants
and Consultants

Report on Summarized Comparative Information

We have previously audited the Agency's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 20, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information, including comparative totals, shown on pages 48 to 51 is presented for purposes of additional analysis, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2014 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Clark Nuber P.S.

Certified Public Accountants
October 24, 2014

HOUSING HOPE AND SUBSIDIARIES

Consolidated Statement of Financial Position June 30, 2014 (With Comparative Totals for 2013)

	<u>2014</u>	<u>2013</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,124,327	\$ 1,069,874
Short-term investments (Note 4)	228,925	254,668
Accounts receivable, net of an allowance for doubtful accounts of \$17,212 (\$39,043 - 2013)	605,657	586,277
Grants and contracts receivable	153,937	152,258
Due from affiliates (Note 16)	78,165	117,798
Current portion of notes receivable, accrued interest and deferred developer fees due from affiliates (Note 16)	91,940	68,650
Pledges receivable, current portion (Note 5)	77,964	222,343
Real estate inventory	585,010	1,111,205
Prepaid expenses	166,468	129,658
Total Current Assets	3,112,393	3,712,731
Assets designated by board for long-term reserves and investment in long-term assets (Note 6)	2,079,088	1,737,238
Assets restricted by donors for investment in long-term assets (Note 9)	354,819	51,140
Assets restricted by donors for endowments and long-term reserves (Note 9)	1,474,697	1,408,463
Restricted reserves and deposits (Note 3)	302,378	284,904
Funds held in trust	146,749	320,060
Land, buildings, and equipment, net (Note 10)	32,986,562	30,690,391
Notes receivable, accrued interest and deferred developer fees due from affiliates, net of current portion (Note 16)	1,684,000	1,082,062
Project development costs (Note 11)	1,794,369	397,360
Investment in limited partnerships and limited liability companies	1,587,030	1,686,977
Total Assets	\$ 45,522,085	\$ 41,371,326
Liabilities and Net Assets		
Current Liabilities:		
Short-term borrowings (Note 12)	\$ 363,337	\$ 181,902
Accounts payable and accrued expenses	655,765	707,189
Construction payable	57,303	189,258
Current portion of accrued interest	62,109	49,141
Current portion of long-term debt (Note 13)	428,718	713,292
Total Current Liabilities	1,567,232	1,840,782
Accrued long-term expenses	106,633	107,196
Accrued interest on long-term debt	685,675	593,480
Long-term debt, net of current portion (Note 13)	23,531,247	20,181,791
Total Liabilities	25,890,787	22,723,249
Net Assets:		
Unrestricted-		
Undesignated	9,253,682	8,346,314
Designated by the Board of Directors (Note 6)	2,352,921	1,984,877
Total unrestricted	11,606,603	10,331,191
Temporarily restricted (Note 7)	7,167,363	7,601,924
Permanently restricted (Note 8)	857,332	714,962
Total Net Assets	19,631,298	18,648,077
Total Liabilities And Net Assets	\$ 45,522,085	\$ 41,371,326

See accompanying notes.

HOUSING HOPE AND SUBSIDIARIES

Consolidated Statement of Activities For the Year Ended June 30, 2014 (With Comparative Totals for 2013)

	2014			Total	2013 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Operating Activities					
Support, Revenue and Gains:					
Contributions	\$ 845,446	\$ 342,864	\$ 142,370	\$ 1,330,680	\$ 1,693,711
In-kind contributions	257,333			257,333	152,988
United Way	144,500			144,500	127,158
Fees and grants from governmental agencies	1,579,816			1,579,816	1,536,978
Program service fees and rents	3,562,174			3,562,174	3,330,287
Management and development fees	187,095			187,095	128,806
Interest and other income	330,716	115,034		445,750	315,523
Total Operating Support, Revenue and Gains	6,907,080	457,898	142,370	7,507,348	7,285,451
Net assets released from restriction	849,837	(849,837)			
Total Operating Support, Revenue and Gains	7,756,917	(391,939)	142,370	7,507,348	7,285,451
Expenses:					
Housing development	710,770			710,770	628,234
Property management	3,467,831			3,467,831	3,270,700
Social services	2,638,262			2,638,262	2,636,828
HopeWorks	741,986			741,986	394,531
Resource development	395,734			395,734	383,984
Administration	660,401			660,401	607,044
Total Operating Expenses					
(Including depreciation and amortization of \$1,097,181 and \$1,001,887 for 2014 and 2013, respectively)	8,614,984			8,614,984	7,921,321
Change in Net Assets From Operating Activities	(858,067)	(391,939)	142,370	(1,107,636)	(635,870)
Nonoperating Activities					
Forgivable loan proceeds		8,000		8,000	709,784
Release of restricted assets - forgivable loan amortization	331,365	(331,365)			
Contributions for the acquisition of long-term assets		314,546		314,546	51,140
Net assets released from restriction for the acquisition of long-term assets	33,803	(33,803)			
Gain on the sale of real estate inventory and other assets	473,147			473,147	372,835
Impairment of fixed assets and real estate inventory	(70,937)			(70,937)	(65,515)
In-kind contribution of long-term assets	175,112			175,112	
In-kind contribution of the Beachwood Apartments property (Note 16)	1,190,989			1,190,989	
Change in Net Assets From Nonoperating Activities	2,133,479	(42,622)		2,090,857	1,068,244
Change in Net Assets	1,275,412	(434,561)	142,370	983,221	432,374
Net assets, beginning of year	10,331,191	7,601,924	714,962	18,648,077	18,215,703
Net Assets End of Year	\$ 11,606,603	\$ 7,167,363	\$ 857,332	\$ 19,631,298	\$ 18,648,077

See accompanying notes.

HOUSING HOPE AND SUBSIDIARIES

Consolidated Statement of Functional Expenses For the Year Ended June 30, 2014 (With Comparative Totals for 2013)

	Program Services				Total Program Services	Supporting Services			2014 Total	2013 Total
	Housing Development	Property Management	Social Services	HopeWorks		Resource Development	Administration	Total Supporting Services		
Personnel:										
Salary and wages	\$ 495,674	\$ 103,786	\$ 1,632,077	\$ 446,509	\$ 2,678,046	\$ 244,458	\$ 486,707	\$ 731,165	\$ 3,409,211	\$ 2,950,775
Payroll taxes	47,301	10,248	159,128	49,757	266,434	20,580	41,457	62,037	328,471	325,295
Employee benefits	54,034	11,520	216,311	33,205	315,070	19,787	40,732	60,519	375,589	405,181
Total Personnel	597,009	125,554	2,007,516	529,471	3,259,550	284,825	568,896	853,721	4,113,271	3,681,251
Professional fees	6,058	463,026	70,724	10,855	550,663	4,210	11,276	15,486	566,149	544,911
Supplies	4,093	5,626	201,490	14,389	225,598	29,002	11,699	40,701	266,299	176,161
Printing and postage	4,409	3,809	9,331	2,707	20,256	23,026	3,349	26,375	46,631	97,928
Information technology	10,313	36,305	66,234	17,841	130,693	6,278	21,933	28,211	158,904	140,457
Occupancy	19,653	510,828	33,623	32,332	596,436	1,817	3,271	5,088	601,524	536,514
Maintenance and repairs	4,116	265,627	48,129	13,016	330,888	1,729	3,076	4,805	335,693	323,486
Equipment and furniture	18,674	71,968	1,948	12,295	104,885		82	82	104,967	107,765
Vehicles	141	176	10,721	24,877	35,915	7	2,330	2,337	38,252	25,734
Insurance	2,079	111,528	18,899	7,159	139,665	2,560	1,427	3,987	143,652	144,313
Education and training	12,264	2,301	4,396	888	19,849	1,968	1,946	3,914	23,763	34,212
Mileage and travel	16,410	15,622	39,738	1,911	73,681	1,983	1,371	3,354	77,035	78,072
Client assistance	1,364	724	68,234	63	70,385	20	20	40	70,425	130,992
Interest, taxes and fees	11,547	792,689	11,830	20,343	836,409	5,176	21,567	26,743	863,152	745,807
Marketing and advertising	2,237	188	2,801	19,801	25,027	16,329	302	16,631	41,658	81,141
Miscellaneous	403	17,929	7,090	16,989	42,411	16,804	7,213	24,017	66,428	70,690
Total Expenses Before Depreciation and Amortization	710,770	2,423,900	2,602,704	724,937	6,462,311	395,734	659,758	1,055,492	7,517,803	6,919,434
Depreciation and amortization		1,043,931	35,558	17,049	1,096,538		643	643	1,097,181	1,001,887
Total Operating Expenses	\$ 710,770	\$ 3,467,831	\$ 2,638,262	\$ 741,986	\$ 7,558,849	\$ 395,734	\$ 660,401	\$ 1,056,135	\$ 8,614,984	\$ 7,921,321

See accompanying notes.

HOUSING HOPE AND SUBSIDIARIES

Consolidated Statement of Cash Flows For the Year Ended June 30, 2014 (With Comparative Totals for 2013)

	2014	2013
Cash Flows From Operating Activities:		
Change in net assets	\$ 983,221	\$ 432,374
Adjustment to reconcile change in net assets to net cash provided by operating activities-		
Realized and unrealized gains	(283,128)	(155,319)
Contributions for long-term purposes	(314,546)	(51,140)
In-kind contribution of long-term assets	(1,366,101)	
Forgivable loan proceeds	(8,000)	(600,784)
Write-off of real estate inventory costs		(109,000)
Gain on sale of real estate inventory and other assets	(473,146)	(372,835)
Depreciation and amortization	1,097,181	1,001,887
Impairment of fixed assets and real estate inventory	70,937	65,515
(Increase) decrease in assets:		
Accounts receivable	(19,380)	(51,976)
Grants and contracts receivable	(1,679)	14,544
Pledges receivable	144,379	(182,707)
Prepaid expenses	(36,810)	411
Funds held in trust	173,311	(168,981)
Due from affiliates	39,633	23,355
Increase in liabilities:		
Change in current liabilities	8,824	216,504
Net Cash Provided by Operating Activities	14,696	61,848
Cash Flows From Investing Activities:		
Purchase of property, equipment and rehabilitation of property	(442,045)	(53,016)
Acquisition of predevelopment costs	(3,610,675)	(2,957,548)
Investment in real estate inventory	(212,938)	(261,926)
Proceeds from sale of real estate inventory	850,000	950,000
Repayment of notes receivable	501,329	85,772
Investment in limited partnerships and limited liability companies	29	33
Proceeds from sale of short-term investments	25,743	(52,667)
Proceeds from sale of property, equipment and rehabilitation of property	100,000	
Net deposits of restricted reserves	(17,474)	(80,670)
Net change in assets whose use is limited or restricted-		
By board for long-term reserves and investment in long-term assets	(341,850)	(646)
By donors for reserves and investment in long-term assets	(86,785)	63,520
Net Cash Used by Investing Activities	(3,234,666)	(2,307,148)
Cash Flows From Financing Activities:		
Proceeds from issuance of long-term debt	3,641,100	3,429,946
Repayment of long-term debt	(870,658)	(1,075,390)
Proceeds from short-term borrowings	355,500	
Repayment of short-term borrowings	(174,065)	(184,027)
Forgivable loan proceeds	8,000	600,784
Contributions received for long term purposes	314,546	51,140
Net Cash Provided by Financing Activities	3,274,423	2,822,453
Net Change in Cash and Cash Equivalents	54,453	577,153
Cash and cash equivalents, beginning of year	1,069,874	492,721
Cash and Cash Equivalents, End of Year	\$ 1,124,327	\$ 1,069,874
Supplemental Disclosures:		
Cash paid during the year for interest	\$ 689,958	\$ 724,811
Predevelopment costs acquired for which accounts payable existed at year end	\$ 57,303	\$ 189,258

See accompanying notes.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 1 - Organization and Purpose

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

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

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

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

HopeWorks Social Enterprises (HopeWorks) was incorporated in the State of Washington on January 11, 2011 as a Washington not-for profit corporation to promote and provide employment and education services for individuals needing assistance, in order to obtain and maintain increased income. HopeWorks' first social enterprise, GroundWorks, provides landscaping services for 72 properties. WaterWorks Irrigation Services provides irrigation, design and maintenance services. ReNewWorks Home and Décor is a consignment store established during 2013 in temporary space and relocated to a newly renovated Broadway location in September 2014. It is the intention of the agency to create additional social enterprises that will have a "double bottom line" of financial viability and mission related training and employment opportunities for homeless and low-income adults. HopeWorks acquired property in March 2014 to be used as headquarters and operating space for its social enterprises. Adjacent land has also been purchased for future construction of residential and commercial space. All HopeWorks board members are appointed by the Housing Hope Board of Directors.

The Agency provides the following service programs:

Housing Development - The development of new housing units is accomplished through securing land and properties for construction or rehabilitation. During the year ended June 30, 2014, Housing Hope's interest in Monroe Family Village LLC was transferred to Housing Hope Properties as the Managing Member and NEF Assignment Corporation as the Investor Member. Construction of this project has commenced. Land was acquired for the future Twin Lakes Landing development project.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 1 - Continued

Team HomeBuilding - The Team HomeBuilding Housing program is included in the Housing Development column on the consolidated statement of functional expenses. This home ownership program is funded through the United States Department of Agriculture Rural Development (USDA-RD) Sec. 523 Technical Assistance Grant. The program participants receive a federally assisted USDA-RD direct Section 502 loan that enables families to use their own labor instead of a down payment to reach their goal of home ownership. Using a collective process of owner-builder home construction, Team HomeBuilding assists groups of 5 to 10 families as they work together to build homes. During the year ended June 30, 2014, 10 homes at Rose Park were completed and 10 lots were sold to new Team HomeBuilding participants at French Creek Bluff, both developments located near Snohomish, Washington.

Property Management - The Agency contracts for property management services with Coast Real Estate Services (Coast). This local firm is an experienced manager of properties around the State of Washington and oversees a substantial inventory of over 4,000 affordable housing units, many with requirements similar to the Agency's. Under this contract, Coast is responsible for occupancy, compliance, fiscal management and maintenance. During the year ended June 30, 2014, households living in Housing Hope facilities (including tax credit properties) totaled 351 in 231 low-income, 114 homeless and 6 emergency shelter units.

Social Services - The Agency offers a service-enriched housing continuum by providing case management, employment assistance, childcare, and life skills education to all residents of emergency and transitional housing. During the year ended June 30, 2014, the Agency provided 6,629 emergency shelter bednights to 100 individuals in 31 households and 137,434 transitional housing bednights to 549 individuals in 164 households.

ChildHope - Housing Hope operates four child programs designed to benefit families with children who have experienced homelessness or are at high risk. These include a Homeless Teen Parent Program, an In-Home Child Specialist Program, parent education through the College of Hope and licensed childcare through the Tomorrows Hope Child Development Center. Tomorrow's Hope is the only childcare facility in Snohomish County licensed to meet the needs of homeless children. During the year ended June 30, 2014, 185 children were provided 17,705 childcare days. The programs are included in the Social Services column on the consolidated statement of functional expenses.

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

Note 2 - Summary of Significant Accounting Policies

The significant accounting policies of the Agency are described below:

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

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 2 - Continued

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

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

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Agency reports the support as unrestricted.

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

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

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

Cash and Cash Equivalents - For reporting purposes, the Agency considers all investments in highly liquid debt instruments with a purchased maturity of three months or less, to be cash equivalents.

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. Accounts receivable include \$529,022 and \$523,972 in self-help family loans related to the Team Home Building program as of June 30, 2014 and 2013, respectively. The self-help family loans are forgiven by the Agency after 25 years, unless the related property is sold. If sold, the funds are repaid to the Agency at that time.

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

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

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

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

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

Real Estate Inventory - As part of normal operations, the Agency purchases land that will be developed as part of the Team HomeBuilding program. This land is recorded at the lower of cost or fair market value. In accordance with U.S. GAAP, impairment losses of \$70,937 and \$65,515 for the years ended June 30, 2014 and 2013, respectively, were recognized and reported in the consolidated statement of activities.

Federal Income Taxes - The Agency has been notified by the Internal Revenue Service that it is 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. The Agency files income tax returns with the U.S. government. The Agency is subject to income tax examinations for the current year and certain prior years based on the applicable laws and regulations.

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 year ended June 30, 2014 and 2013, the Agency contributed \$38,379 and \$29,148, respectively, to the Plan.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

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, 2014, a substantial number of volunteers, including members of the Board of Directors, donated 7,569 hours (unaudited) to the Agency program services and fund-raising campaigns, with an additional 16,903 hours (unaudited) donated on behalf of the Team HomeBuilding building groups. However, only donated services that meet the criteria for recognition under U.S. GAAP are reflected in the accompanying consolidated financial statements and at the fair values at the time of donation. The estimated value of such services is recorded as donated service revenue and as a cost of services, provided either of the following qualifications is met:

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

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

	<u>2014</u>	<u>2013</u>
Donated goods, services, & long-term assets -		
Housing Development and Team Home Building	\$ 155,200	\$ 374
Donated goods & services - Tomorrow's Hope Childcare Center	14,544	6,725
Donated goods & services - Administration	1,205	6,525
Donated goods & services - Fundraising	30,334	8,052
Donated goods & services - Property Management	524	7,281
Donated goods & services - Classroom Instruction		14,420
Donated goods, services, & long term-assets - HopeWorks	28,684	12,390
Donated goods for resale - ReNewWorks	16,020	
Donated software and hardware - Technology	4,850	10,650
Donated goods & services - Social Services and Client Assistance	116,309	86,571
Donated property - Beachwood Apartments	1,190,989	
Donated social investor imputed interest	64,775	
	<u>\$ 1,623,434</u>	<u>\$ 152,988</u>

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

Vulnerability From Certain Concentrations - The Agency receives fees and grants from federal, state, county, and municipal governments. Approximately 20% and 19% of total unrestricted public support and revenue (not including gains and losses generated by the sale of fixed assets and in-kind donations of long term assets or property) for the years ended June 30, 2014, and 2013, respectively, was received from these grantors. The receipt of governmental funding is subject to audit by various governmental agencies, the outcome of which is not known until the audits are completed. Management is aware of these risks and has contingency plans available.

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

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 2 - Continued

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

The Program acquires excess insurance from its insurance broker, Public Risk Underwriters. Liability coverage is purchased to an overall limit of \$5,000,000 per-occurrence with a self-insured retention of \$25,000. Property insurance is subject to a per-occurrence deductible of \$25,000. Members are responsible for the first \$500 of the deductible amount of each claim, while the pool is responsible for the remaining \$24,500. Boiler and machinery insurance is subject to a per-occurrence deductible of \$1,000, with members responsible for the full deductible amount of each claim. 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.

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, 2013, from which the summarized information was derived.

Subsequent Events - The Agency has evaluated subsequent events through October 24, 2014, the date on which the consolidated financial statements were available to be issued.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

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>2014</u>	<u>2013</u>
WCRA maintenance and operating reserves	\$ 159,280	\$ 157,608
Security deposits	102,901	105,301
Banner Bank reserves for Beachwood units	27,171	
Mountain Pacific reserves for Fleming duplexes	<u>13,026</u>	<u>21,995</u>
	<u>\$ 302,378</u>	<u>\$ 284,904</u>

Note 4 - Investments

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

	<u>2014</u>	<u>2013</u>
Short-term investments	\$ 228,925	\$ 254,668
Assets designated by board for long-term reserves and investment in long-term assets	1,383,504	1,249,686
Assets restricted by donors for endowments and long-term reserves	<u>1,184,131</u>	<u>1,220,926</u>
	<u>\$ 2,796,560</u>	<u>\$ 2,725,280</u>

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

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 82,775	\$ 94,620
Realized and unrealized gains	283,128	155,319
Investment management fees	<u>(21,992)</u>	<u>(22,616)</u>
	<u>\$ 343,911</u>	<u>\$ 227,323</u>

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

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 4 - Continued

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

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

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

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used during the year ended June 30, 2014.

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

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

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

HOUSING HOPE AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2014**

Note 4 - Continued

Fair Values Measured on a Recurring Basis - Fair values of assets measured on a recurring basis at June 30, 2014 and 2013, were as follows:

	<i>Fair Value Measurements</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Money market funds	\$ 94,033	\$ -	\$ -	\$ 94,033
Mutual funds-				
Large cap growth	312,943			312,943
Large cap value	263,679			263,679
Small/medium cap growth	98,999			98,999
Small/medium cap value	75,149			75,149
International	240,554			240,554
Blend	51,395			51,395
Currency	129,013			129,013
Fixed income	627,595			627,595
Other	128,634			128,634
Total mutual funds	1,927,961			1,927,961
Marketable equity securities-				
Information technology	105,547			105,547
Commodity	33,309			33,309
Industrial	280,603			280,603
Telecommunication services	103,909			103,909
Financial	76,189			76,189
Energy	35,339			35,339
Consumer discretionary	139,670			139,670
Total marketable equity securities	774,566			774,566
Total June 30, 2014	\$ 2,796,560	\$ -	\$ -	\$ 2,796,560
Total June 30, 2013	\$ 2,725,280	\$ -	\$ -	\$ 2,725,280

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 5 - Pledges Receivable

Pledges receivable at June 30, 2014, are as follows:

Receivable in less than one year	\$	376,019
Receivable in one to five years		<u>81,563</u>
Total pledges receivable		457,582
Less discounts to net present value		(3,137)
Less allowance for uncollectible pledges receivable		<u>(6,885)</u>
Net Pledges Receivable	\$	<u>447,560</u>

Pledges receivable due in more than one year are discounted at an annual rate of 6% for each additional year through the term of the pledge.

As of June 30, 2014, pledges receivable were reported in the consolidated statement of financial position as follows:

Pledges receivable, current portion	\$	77,964
Assets designated by board for long-term reserves and investment in long-term assets		5,000
Assets restricted by donors for investment in long term assets		203,845
Assets restricted by donors for endowments and long-term reserves		<u>160,751</u>
	\$	<u>447,560</u>

Note 6 - Board Designated Net Assets

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

	<u>2014</u>	<u>2013</u>
Working capital and other reserves	\$ 510,637	\$ 329,403
Reserve for the replacement or repair of long-term assets	225,184	215,348
Board designated quasi-endowment	<u>1,617,100</u>	<u>1,440,126</u>
	<u>\$ 2,352,921</u>	<u>\$ 1,984,877</u>

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

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>2014</u>	<u>2013</u>
Investments and cash	\$ 2,074,088	\$ 1,689,458
Pledges receivable	5,000	47,780
	<u>\$ 2,079,088</u>	<u>\$ 1,737,238</u>

Note 7 - Temporarily Restricted Net Assets

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

	<u>2014</u>	<u>2013</u>
Reserves for program services	\$ 594,214	\$ 1,053,098
Acquisition of long-term assets	354,819	51,140
Endowment earnings (Note 15)	326,799	282,790
Forgivable loans	5,891,531	6,214,896
	<u>\$ 7,167,363</u>	<u>\$ 7,601,924</u>

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

	<u>2014</u>	<u>2013</u>
Acquisition of long-term assets	\$ 33,803	\$ 19,780
Reserves for program expenses	849,837	486,733
Forgivable loan amortization	331,365	464,637
	<u>\$ 1,215,005</u>	<u>\$ 971,150</u>

Note 8 - Permanently Restricted Net Assets

At June 30, 2014 and 2013, the Agency had \$857,332 and \$714,962, respectively of permanently restricted net assets. The income from the investment of these assets may be used to fund operations. See Note 15 for further disclosure of the Agency's permanently restricted endowment funds.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 9 - Assets Restricted by Donors

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

	<u>2014</u>	<u>2013</u>
Investments and cash	\$ 1,313,946	\$ 1,220,926
Pledges receivable	160,751	187,537
	<u>\$ 1,474,697</u>	<u>\$ 1,408,463</u>

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

	<u>2014</u>	<u>2013</u>
Investments and cash	\$ 150,974	\$ 44,740
Pledges receivable	203,845	6,400
	<u>\$ 354,819</u>	<u>\$ 51,140</u>

Note 10 - Land, Buildings, and Equipment

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

	<u>2014</u>	<u>2013</u>
Land	\$ 7,157,211	\$ 6,749,520
Buildings and improvements	32,245,041	29,616,626
Furniture and equipment	873,026	829,638
Vehicles	110,831	107,931
	40,386,109	37,303,715
Less accumulated depreciation	<u>(7,399,547)</u>	<u>(6,613,324)</u>
Land, Buildings, and Equipment, Net	<u>\$ 32,986,562</u>	<u>\$ 30,690,391</u>

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 11 - Project Development Costs

Predevelopment costs have been incurred for the Twin Lakes Landing project in Marysville and the HopeWorks Station remodel in Everett. The accumulated development costs for the Twin Lakes Landing and HopeWorks Station projects at June 30, 2014 were \$1,659,538 and \$134,831, respectively, totaling \$1,794,369.

Note 12 - Short-Term Borrowings

Bank of America Loan Management Account 28502289 - The Agency has a \$600,000 loan management account intended for operating needs renewed and available at a variable interest of LIBOR plus 3.63%, resulting in a rate initially set at 4.43% (3.83% at June 30, 2014), with a maturity date due upon demand. At June 30, 2014, and 2013, there was an outstanding balance of \$349,881 and \$181,902 respectively.

Chase Bank Loan 00451885537003 - During the year ended June 30, 2014, the Agency obtained a loan in the amount of \$187,500 for the purchase of a vacant lot as part of the HopeWorks Station acquisition, with all principal and interest at 5% due and payable March 5, 2015. At June 30, 2014, there was an outstanding balance of \$13,456, which was subsequently paid in full during July of 2014.

Note 13 - Long-Term Debt

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

	<u>2014</u>	<u>2013</u>
<u>ACQUISITION AND PREDEVELOPMENT LOANS</u>		
<u>US Bank</u>		
<u>Community Development Investment/EQ2 Loan 0000000026</u>		
Community development equity-equivalent debt investment (EQ2) loan to fund the Housing Opportunity Fund (HOF). Initial unsecured 10-year loan (to 2018) at fixed interest rate of 4% paid quarterly with 5 additional 1-year extensions available on request. (2502)	\$ 150,000	\$ 150,000
<u>Impact Capital</u>		
<u>(LISC) LOC 2005212</u>		
\$1,100,000 Line of Credit for acquisition and pre-development costs, interest payable monthly at 6%, secured by real estate "Monroe Main Street" and "Monroe Fremont Street." The line of credit was paid in full during 2014. (2401)		391,872
<u>State of Washington</u>		
<u>WSHFC LAP Loan</u>		
Note payable secured by real property "Monroe Family Village" with principal and interest deferred until Maturity date August 31, 2017. Prevailing Market Rate, except if paid in full by Maturity Date, then the interest rate will be one percent (1%) per annum (1% at June 30, 2013). During 2014, the note payable was assigned to Monroe Family Village LLC, an unconsolidated affiliate. (2533)		629,675

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 13 - Continued

	<u>2014</u>	<u>2013</u>
<u>HOME/ADDI HCD-10-42-5789-048</u> Mortgage payable secured by real property an original amount of \$88,200, with \$72,216 having been drawn as of June 30, 2014 and 2013, and all payments deferred and principal and interest at 0% to be paid at the end of the program, subject to rent restriction covenant agreement.	72,216	72,216
TWIN LAKES LANDING		
<u>State of Washington Housing Finance Commission</u> <u>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	
<u>Impact Capital Pre-Development Loan</u> <u>2013202</u> Note payable secured by real property "Twin Lakes Landing I" with monthly interest only payments due at 6.5%, for 36 months, maturity date September 30, 2016, with a single 12-month extension available to September 30, 2017. (2608)	567,000	
AVANTI HOUSE		
<u>State of Washington</u> <u>OCD HAP 5-92-410-32B</u> Mortgage payable secured by real property "Avanti House" with principal and interest at 0% deferred until 2043 and payments based on cash flow schedule subject to a low-income housing agreement. (2720)	194,653	194,653

BEACHWOOD

The mortgage and notes payable below were assumed in the acquisition of Beachwood during the year ended June 30, 2014 as further described in Note 16.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 13 - Continued

	<u>2014</u>	<u>2013</u>
<u>Banner Bank</u> Mortgage payable to Banner Bank in the original amount of \$460,000; secured by a first deed of trust on the real property, assignment of rents and security interest in personal property; payable in monthly installment of \$2,945, including interest at 6.625%; matures January 1, 2029.	329,946	
<u>State of Washington Department of Commerce</u> <u>From Housing Finance Unit funds</u> Note payable in the original amount of \$190,000; secured by deed of trust on real estate, subject to a low-income housing covenant. Annual payments of \$4,847 including interest at 1%, and due in full in 2048. (2762A)	142,556	
<u>State of Washington Department of Commerce</u> <u>From HOME Program fund. Tier B</u> Note payable in the original amount of \$210,000 secured by a deed of trust on real estate subject to a low-income housing covenant. Interest at 1% accrued until December 31, 2004, balance then amortized over 45 years. Annual payments of \$6,115, including interest at 1%, through maturity at December 31, 2048. (2762)	179,829	
<u>Snohomish County</u> <u>From HOME Program fund 1997 #7</u> Note payable in the original amount of \$375,000, secured by deed of trust on real property; non-interest bearing and subject to a rent restriction covenant. Note was amended March 2011 to have the option to forgive principal and interest at maturity, January 2049, provided the agency remains in compliance with provisions of the note and HOME agreement. (2710E)	375,000	
COMMERCE BUILDING		
<u>Washington Community Reinvestment Association</u> <u>(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)	836,450	848,225

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 13 - Continued

	<u>2014</u>	<u>2013</u>
<u>State of Washington Department of Commerce</u> <u>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)	380,800	392,700
<u>Snohomish County</u> <u>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</u> <u>HOME 1993 #3</u> Mortgage payable secured by real property "Commerce Building," 7.69% interest. Principal and interest due and payable in full October 4, 2035. Subject to HOME agreement. (2725G)	165,200	165,200
<u>City of Everett CDBG</u> Mortgage payable secured by real property "Commerce Building," 0% interest, due and payable in full November 14, 2044. (2725H)	50,000	50,000
<u>City of Everett CHIP</u> <u>Commerce Building Rehab - Windows</u> Note payable secured by real property "Commerce Building," with all payments deferred and principal and interest at 3% due and payable November 14, 2044. (2725C)	389,870	389,870
<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. (2725E)	395,147	

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 13 - Continued

	<u>2014</u>	<u>2013</u>
CROSSROADS		
<u>State of Washington Department of Commerce</u> <u>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
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)	496,049	505,223
HARRISON		
<u>State of Washington</u> <u>OCD HAP 5-92-492-2B</u> Note payable secured by real property "Harrison" with all payments deferred and principal and interest at 0% due and payable in 2026 subject to low-income housing agreement. During the year ended June 30, 2014 this was settled with the sale of the Harrison property. (2740D)		11,302
HOPE VILLAGE		
<u>Opus Bank 5303050211</u> Assigned mortgage payable in the original amount of \$800,000, interest of 6.7%, monthly installments of principal and interest in the amount of \$6,267 are payable through November 2017, secured by deed of trust on the real property. (2745C)	228,043	285,656

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 13 - Continued

	<u>2014</u>	<u>2013</u>
<u>Washington State Department of Commerce</u> <u>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)	210,000	225,000
<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
HOPEWORKS SOCIAL INVESTORS Collateral backed notes secured by real property "HopeWorks Station", quarterly interest only payments at an annual rate of 2% for 3 years and increasing to 3% thereafter until the maturity date, principal payable in full at the maturity in January 2019, five years after the due date of the first interest payment. (2617) A present value discount of \$59,978 has been recognized and reported at June 30, 2014 on the social investor notes due to the below market interest rate loans.	740,000	

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 13 - Continued

	<u>2014</u>	<u>2013</u>
HOPEWORKS STATION		
<u>Chase Bank 5451885537002</u> Note payable secured by real property "3331 Broadway Ave, Everett, WA", due in 35 monthly installments of \$5,526, including principal and interest at a variable rate set annually using the Treasury Security rate (3.63% for 2014), until March 5, 2017. (2490)	925,923	
<u>YMCA of Snohomish County</u> Note payable secured by real property "3311 Broadway Ave, Everett WA", due in annual installments of \$50,000 including principal and interest at 5%, first payment due March 1, 2015, final payment due March 1, 2016. (2497)	115,000	
<u>Opus Bank 50-0130628281</u> Note payable secured by real property "Lervick Family Village" due in monthly installments including principal and interest at a variable rate set annually, at 3% over the 12th District Savings Institutions Cost of Funds Index, and with a maturity date of February 1, 2026. The current monthly payment is \$475 at a rate of 4.25%. (2770F)	52,063	55,528
<u>State of Washington Department of Commerce HAP 5-94-491-7A</u> Note payable secured by real property "Lervick Family Village" with annual principal payments of \$6,760 only and interest at 0% until 2047 subject to low-income housing agreement. (2770B)	223,080	229,840
LINCOLN HILL VILLAGE		
<u>Snohomish County OCHD HOME</u> Note payable secured by real property "Lincoln Hill Village" with all payments deferred and principal and interest at 1% until 2030 then monthly payments of \$2,737 until December, 2050. (2520D)	656,842	656,842
<u>State of Washington Department of Commerce 07-47104-007</u> Note payable secured by real property "Lincoln Hill Village" with \$462,000 deferred until 2018 then annual payments of \$14,000 and \$1,393,654 deferred until 2041 then quarterly payments of \$34,841. All principal and interest at 0% due at December 2051. (2520S)	1,855,654	1,855,654

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 13 - Continued

	<u>2014</u>	<u>2013</u>
<u>Washington Community Reinvestment Association</u> <u>(WRCA) 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)	1,933,425	1,954,938
MAPLE LEAF MEADOWS		
<u>State of Washington Department of Commerce</u> <u>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 2037 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. (2602E)	1,444,726	1,487,125
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)	1,171,561	1,194,295

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 13 - Continued

	<u>2014</u>	<u>2013</u>
NEW CENTURY VILLAGE & EXPANSION		
<u>State of Washington Department of Commerce</u> <u>02-49300-075</u> Note payable secured by real property "New Century House" with all payments deferred for 25 years with interest at 3% accruing during the deferral period. The principal amount including deferred interest will be amortized for 10 years with annual payments of \$55,227 due and payable on June 1 beginning 2028 and ending 2037 subject to use as transitional and permanent affordable housing for homeless teen mothers. (2601C)	225,000	225,000
<u>JP Morgan Chase Bank</u> <u>99-04291494-5 - EHA Low-Income Housing Revenue Bond, 2011</u> Original amount of \$700,000 secured by Deed of Trust to JP Morgan Chase Bank on "New Century House" property. Due in monthly installments of \$3,884 including principal and interest at 5.29%, with a balloon payment due February 2018. (2601E)	551,998	568,902
<u>City of Everett</u> <u>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)	1,139,401	1,162,190
PILCHUCK PLACE AND WOODS CREEK VILLAGE		
<u>State of Washington Department of Commerce</u> <u>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 \$17,745.38 due and payable beginning June 30, 2043 and ending March 31, 2053. (2781B)	500,000	496,637

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 13 - Continued

	<u>2014</u>	<u>2013</u>
<u>Snohomish County</u> <u>HOME HCS-12-42-1201-251</u> Note payable in the original amount of \$600,000 secured by real property "Pilchuck Place Townhomes" with all payments deferred until 2043 with interest accruing during the deferral period at 1%. Monthly payments in an amount to be determined by September 1, 2043, when payment begin, until September, 2052. (2782A)	600,000	600,000
<u>Snohomish County</u> <u>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	532,141
<u>Washington Community Reinvestment Association</u> <u>(WCRA) B-120364 Nonprofit Housing Revenue Bond, Series 2012</u> Note payable in the original amount of \$1,713,769 secured by real property "Pilchuck Place Townhomes" and "Woods Creek Village Apartments" due in monthly payments of \$9,331.25 including principal and interest at 5.125%. Maturity date is September 1, 2042. (2783A and 2783B)	1,669,662	1,695,348
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 \$4,496.47 including principal and interest at 2.708% maturing April 1, 2027. (2752C)	584,390	621,969
VISION HOUSE		
<u>State of Washington Department of Commerce</u> <u>HFU 98-49300-484</u> Note payable secured by real property "Vision House" with annual principal payments of \$169 only with interest at 0% until 2049 subject to a low-income housing agreement. (2575A)	5,903	6,070

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 13 - Continued

	<u>2014</u>	<u>2013</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)	474,743	484,275
<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)	231,850	236,511
<u>State of Washington Department of Commerce</u> <u>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)	227,615	233,043
Total	24,019,943	20,895,083
Less current portion	(428,718)	(713,292)
Less present value discount	(59,978)	
Long-Term Debt, net	<u>\$ 23,531,247</u>	<u>\$ 20,181,791</u>

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 13 - Continued

Principal maturities are as follows:

For the Year Ending June 30,

2015	\$ 428,718
2016	465,826
2017	405,590
2018	1,339,450
2019	1,079,591
Thereafter	<u>20,300,767</u>
	<u>\$ 24,019,942</u>

The current portion of long-term debt and principal maturities reported as of June 30, 2013 includes the Impact Capital Line of Credit in the amount of \$391,872. The Agency has paid it in full during fiscal year 2014.

The Agency has multiple below market interest rates on nonforgivable notes held by governmental agencies. If reported, the in-kind contributions and mortgage interest expenses related to these notes would have been \$312,346 and \$363,459 for the years ended June 30, 2014 and 2013, respectively. There is no impact on earnings or on ending net assets as a result of the use of this accounting method.

Note 14 - Forgivable Loans

The Agency received cumulative forgivable loan proceeds of \$8,702,262 and \$8,694,262 through the years ended June 30, 2014 and 2013, respectively. Under terms of the agreements, the facilities funded by these proceeds must be used to continue the mission of the Agency and provide housing for low to very-low income individuals for periods of time expiring through 2052. The forgivable loans are secured by properties at those sites. As management believes the conditions related to these loans are being met and are likely to continue to be met, the proceeds from these forgivable loans have been recognized as temporarily restricted contributions (Note 7). The restricted balances are being released over the terms of the agreements. The full original proceeds are due on demand and in some cases the funders' prorated share of accumulated appreciation would also be due should the Agency sell the property or fall out of compliance with the specified use restriction. As of June 30, 2014, the Agency is in compliance with the restrictions.

HOUSING HOPE AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2014**

Note 14 - Continued

Forgivable loans are as follows at June 30:

	<u>2014</u>	<u>2013</u>
ARLINGTON		
<u>State of Washington Department of Commerce</u>		
<u>HTF HAP 2-92-410-8A</u>		
Note payable secured by real property "Arlington," with original amount of \$120,000 and all payments deferred and principal and interest at 0% to be forgiven in 2018 subject to a low-income housing agreement.	\$ 20,988	\$ 25,788
<u>Snohomish County</u>		
<u>OHCD AHTF 9203260150</u>		
Mortgage payable secured by real property "Arlington," with original amount of \$57,000 and all payments deferred and principal and interest at 0% to be forgiven in 2017 subject to a low-income housing agreement. (2710D)F	6,240	8,520
AVANTI HOUSE		
<u>Snohomish County</u>		
<u>OCHD HOME 1992#3 & 1993#1</u>		
Mortgage payable secured by real property "Avanti House" with original amount of \$182,998 and all payments deferred and principal and interest at 0% to be forgiven in 2014 subject to use as transitional and permanent housing for formerly homeless teen parents under the age of 24. (2721)F	777	9,927
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	352,325	362,780

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 14 - Continued

	<u>2014</u>	<u>2013</u>
HOPE VILLAGE II		
<u>State of Washington</u> <u>OCD 02-49300-129 (HFT #2)</u> Note payable secured by real property "Hope Village II" with original amount of \$130,000 and all payments deferred and principal and interest at 0% to be forgiven in 2043 subject to a use restriction covenant agreement. (2604A)F	94,330	97,580
KENNEDY COURT		
<u>Snohomish County</u> <u>OCHD HOME 1992#5</u> Mortgage payable secured by real property "Kennedy Court" with original amount of \$66,954 and all payments deferred and principal and interest at 0% to be forgiven in 2014 subject to use as transitional and permanent housing. (2755B)F	284	3,632
LERVICK FAMILY VILLAGE		
<u>Snohomish County</u> <u>OCHD CDBG H&CD 1993#18</u> Mortgage payable secured by real property "Lervick Family Village" with original amount of \$90,000 and all payments deferred and principal and interest at 0% to be forgiven in 2045 subject to use as transitional housing. (2770D)F	54,651	56,451
<u>Snohomish County</u> <u>OCHD HOME 1992#9 1993#7 & 1994#5</u> Mortgage payable secured by real property "Lervick Family Village" with original amount of \$285,196 and all payments deferred and principal and interest at 0% to be forgiven in 2045 subject to use as transitional housing. (2770CG&H)F	179,838	185,542
<u>Snohomish County</u> <u>OCHD CDBG H&CD 1989#37</u> Mortgage payable secured by real property "Lervick Family Village" with original amount of \$85,000 and all payments deferred and principal and interest at 0% to be forgiven in 2045 subject to use as transitional housing. (2770E)F	53,315	55,015

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 14 - Continued

	<u>2014</u>	<u>2013</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	38,022	39,022
LINCOLN HILL VILLAGE		
<u>Snohomish County</u> <u>OCHD AHTF HCD-08-11-0803-048</u> Note payable secured by real property "Lincoln Hill Village" all payments deferred and principal and interest at 0% to be forgiven 40 years after the project is placed in service (June 2011), subject to use as affordable housing for very low-income households. Original amount was \$695,928. (2520C)F	477,121	491,039
MAPLE LEAF MEADOWS		
<u>Snohomish County</u> <u>OCHD HOME 2001#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	344,987	354,187
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	983,384	1,010,492
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	178,220	182,980

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 14 - Continued

	<u>2014</u>	<u>2013</u>
<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	78,080	84,480
<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	55,726	59,726
<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	115,550	122,525
<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	224,613	231,566
OAKES AVENUE COMMONS		
<u>Snohomish County</u> <u>OCHD HOME 99-03</u> Mortgage payable secured by real property "Oakes Avenue Commons" with original amount of \$230,000 and all payments deferred and principal and interest at 0% to be forgiven in 2020 subject to rent restriction covenant agreement. (2780A)F	66,259	77,759
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	975,493	1,001,743

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 14 - Continued

	<u>2014</u>	<u>2013</u>
SHOP LOANS		
<u>Community Frameworks SHOP</u> <u>Self-Help Homeownership Project HHP-03-01</u> Note payable with loan agreement at 0% interest originally secured by real property "Port Susan" with original amount of \$200,000. Funds were repaid with the sale of the Port Susan lots to the Team HomeBuilding families and deposited in a designated Housing Hope revolving fund account for re-use on eligible activities. One-third of the loan was forgiven in fiscal year 2011. The remaining balance was forgiven in 2014 contingent on compliance with eligible purposes in the homeownership program. (2777)F		17,041
<u>Community Frameworks SHOP</u> <u>Self-Help Homeownership Project HHP-03-02</u> Note payable with loan agreement at 0% interest originally secured by real property "Self-Help Monroe" with original amount of \$80,000. Funds were repaid with the sale of the Sky Meadow lots to the Team HomeBuilding families and deposited in a designated Housing Hope revolving fund account for re-use on eligible activities. One-third of the loan was forgiven in fiscal year 2011. The remaining balance may be forgiven in 2016 contingent on compliance with eligible purposes in the homeownership program. (2777M)F	12,449	20,449
<u>Community Frameworks SHOP</u> <u>Self-Help Homeownership Project HHP-05</u> Note payable with loan agreement at 0% interest secured by 26 lots of real property "Self-Help Copper Station" with original amount of \$150,000. Funds were repaid with the sale of the Copper Station lots to the Team HomeBuilding families and deposited in a designated Housing Hope revolving fund account for re-use on eligible activities. One-third of the loan was forgiven in fiscal year 2011. The balance may be forgiven in 2018 contingent on compliance with eligible purposes in the homeownership program. (2777C)F	57,616	72,616

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 14 - Continued

	<u>2014</u>	<u>2013</u>
<u>Community Frameworks SHOP</u> <u>Self-Help Homeownership Project HHP-06</u> Note payable with loan agreement at 0% interest secured by 26 lots of real property "Self-Help Copper Station" with original amount of \$240,000 (HHP-06-01) and \$75,000 (HHP-07-01). Funds were repaid with the sale of the Copper Station lots to Team HomeBuilding families and deposited in a designated Housing Hope revolving fund account for re-use on eligible activities. One-third of the loan may be forgiven at the end of the applicable HUD funding cycle. The balance may be forgiven in 2018 contingent on compliance with eligible purposes in the homeownership program. (2777C)F	93,107	117,107
<u>Community Frameworks SHOP</u> <u>Self-Help Homeownership Project HHP-07-1</u> Note payable with loan agreement at 0% interest secured by 9 lots of real property "Copper Station" with original amount of \$135,000. Funds were repaid with the sale of the Copper Station lots to Team HomeBuilding families and deposited in a designated Housing Hope revolving fund account for re-use on eligible activities. One-third of the loan may be forgiven at the end of the applicable HUD funding cycle. The balance may be forgiven in 2019 contingent on compliance with eligible purposes in the homeownership program. (2777D)F	72,789	86,289
<u>Community Frameworks SHOP</u> <u>Self-Help Homeownership Project HHP-08-01</u> Note payable with loan agreement at 0% interest secured by 14 lots of real property "Marvin Gardens" with original amount of \$210,000. Funds to be repaid with the sale of the Marvin Gardens lots to Team HomeBuilding families and deposited in a designated Housing Hope revolving fund account for re-use on eligible activities. One-third of the loan may be forgiven at the end of the applicable HUD funding cycle. The balance may be forgiven in 2020 contingent on compliance with eligible purposes in the homeownership program. (2777P)F	134,227	140,000

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 14 - Continued

	<u>2014</u>	<u>2013</u>
<u>Community Frameworks SHOP</u> <u>Self-Help Homeownership Project HHP-08-02</u> Note payable with loan agreement at 0% interest secured by 10 lots of real property "Rose Park" with original amount of \$150,000. Funds to be repaid with the sale of the Rose Park lots to the Team HomeBuilding families and deposited in a designated Housing Hope revolving fund account for re-use on eligible activities. One-third of the loan may be forgiven at the end of the applicable HUD funding cycle. The balance may be forgiven in 2021 contingent on compliance with eligible purposes in the homeownership program. (2777R)F	102,781	117,781
<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 2020 contingent on compliance with eligible purposes in the homeownership program. (2777F)F	95,836	110,836
<u>Community Frameworks SHOP</u> <u>Self-Help Homeownership Project HHP-10-1</u> Note payable with loan agreement at 0% interest secured by 13 lots of real property "Monroe Main Street" with original amount of \$195,000. Funds to be repaid with the sale of the Monroe Main Street lots to the Team HomeBuilding families and deposited in a designated Housing Hope revolving fund account for re-use on eligible activities. One-third of the loan may be forgiven at the end of the applicable HUD funding cycle. The balance may be forgiven in 2023 contingent on compliance with eligible purposes in the homeownership program. (2777S)F	175,500	195,000

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 14 - Continued

	<u>2014</u>	<u>2013</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		
	27,279	29,515
<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		
	35,890	40,890
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		
	70,402	72,577
<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		
	17,271	17,948
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		
	200,516	206,873

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 14 - Continued

	<u>2014</u>	<u>2013</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.	59,325	61,247
<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	58,017	59,894
<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>378,323</u>	<u>388,079</u>
Total Forgivable Loans Temporarily Restricted Balance	<u>\$ 5,891,531</u>	<u>\$ 6,214,896</u>

Note 15 - Endowments

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

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

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 15 - Continued

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

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

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 326,799	\$ 857,332	\$ 1,184,131
Board designated quasi-endowment funds	1,617,100			1,617,100
Endowment Net Assets, June 30, 2014	<u>\$ 1,617,100</u>	<u>\$ 326,799</u>	<u>\$ 857,332</u>	<u>\$ 2,801,231</u>
Endowment Net Assets, June 30, 2013	<u>\$ 1,440,126</u>	<u>\$ 282,790</u>	<u>\$ 714,962</u>	<u>\$ 2,437,878</u>

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 15 - Continued

Changes to endowment net assets for the year ended June 30, 2014, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2013	\$ 1,440,126	\$ 282,790	\$ 714,962	\$ 2,437,878
Endowment investment return-				
Interest and dividends	70,228	25,489		95,717
Realized and unrealized gains	190,055	83,516		273,571
Total endowment investment return	260,283	109,005		369,288
New contributions	33,560	1,771	142,370	177,701
Appropriation of endowment for expenditure	(116,869)	(66,767)		(183,636)
Endowment Net Assets, June 30, 2014	<u>\$ 1,617,100</u>	<u>\$ 326,799</u>	<u>\$ 857,332</u>	<u>\$ 2,801,231</u>

Funds With Deficiencies - From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or PMIFA requires the Agency to retain as a fund of perpetual duration. As of June 30, 2014 and 2013, no such deficiencies existed.

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 inflation annually. 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. 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.

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 16 - Affiliations

Oakes Limited Partnership - The Agency is affiliated with Oakes Limited Partnership (Oakes).

Oakes Limited Partnership was formed on April 22, 1998, 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 Properties as the limited partner.

The Oakes Limited Partnership was amended on February 17, 2000, when two Illinois limited partnerships of National Equity Fund (NEF) replaced Housing Hope Properties as limited partner. Building Credits has a .01% interest and NEF has a 99.99% total interest.

According to the terms of the Oakes Limited Partnership agreement, Building Credits and Housing Hope are to receive the following:

- To Building Credits, a partnership management fee of \$5,000 per year, with no annual escalator.
- To Building Credits, a contingent incentive partnership management fee equal to 33 1/3% of net operating cash flow shall be set aside as the capital reserve. The general partner (Building Credits) shall be paid any capital reserve fund balance remaining available upon sale or other disposition of the project.
- To Housing Hope, a property management fee of \$8,820 each full year after the property has been placed in service, increasing by 3% per year. Property Management was outsourced to Coast Real Estate Services (Coast) in November of 2005. Fees are paid directly to Coast by the Partnership.

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

The Oakes Limited Partnership has granted Housing Hope an option to purchase the Project after the 15-year compliance period for the low-income housing tax credit. If the option is exercised, the contingent incentive partnership management fee remaining in the capital reserve (item 2 above), shall be applied to payment of the purchase price. 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.

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

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

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

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 16 - Continued

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

- To Building Credits, a LLC management fee of \$10,000, increasing by 3% each year. For the year ended June 30, 2014, \$13,048 of partnership management fees were reflected in the financial statements.
- To Housing Hope, a property management fee of \$12,000 each full year after the property has been placed in service, increasing by 3% per year. Property Management was outsourced to Coast in November of 2005. Fees are paid directly to Coast by Hope Village II LLC.

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

- Housing Hope entered into a 15-year lease with Hope Village II LLC for the commercial space in one of the LLC's buildings for a learning center and a before/after school area. During the year ended June 30, 2014, \$9,294 was paid to Hope Village II LLC under this lease.

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

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

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

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, 2014, \$8,609 of partnership management fees were reflected in the consolidated financial statements.
- To Housing Hope, a property management fee of \$10,500 each full year after the property has been placed in service, increasing by 3% each year. Property Management was outsourced to Coast in November of 2005. Fees are paid directly to Coast by the Partnership.

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

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 16 - Continued

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, 2014, \$11,941 of partnership management fees were reflected in the consolidated financial statements.
- To Housing Hope, a property management fee of \$14,321 each full year after the property has been placed in service, increasing by 3% each year. Property Management was outsourced to Coast Real Estate Services in November of 2005. Fees are paid directly to Coast by New Century Village LLC.

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

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

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

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

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

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 16 - Continued

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 payments on its Deferred Developer Fee and repayment of loan it has made to the LLC.

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 intension to exercise this option.

Beachwood Limited Partnership - The Agency is affiliated with Beachwood Limited Partnership (Beachwood).

Beachwood Limited Partnership was formed on February 15, 1998 to construct and operate a low-income apartment complex in Marysville, Washington. Building Credits is the general partner and National Equity fund 1997 Limited Partnership (NEF), is the limited partner. Building Credits has a .01% interest, and NEF has a 99.99% interest.

During fiscal year 2014, the Project completed its 15-year low-income housing tax credit compliance period. As the Project ended its compliance period, Building Credits and NEF agreed to dissolve the Beachwood Limited Partnership. As part of the dissolution, Housing Hope exercised its option to purchase the Project's assets. The purchase option price was equal to the assumption of all Project liabilities including any liabilities for taxes owed as a part of the dissolution. The fair value of the property and Project assets acquired exceeded the amount of Project liabilities assumed by \$1,190,989. This amount is reported as an in-kind contribution in the consolidated statement of activities.

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

	<i>Notes Receivable</i>	<i>Accrued Interest</i>	<i>Less Current Portion</i>	<i>Total</i>
Hope Village II LLC	\$ 525,530	\$ 2,966	\$ (26,729)	\$ 501,767
New Century Village	499,928	4,670	(57,815)	446,783
Monroe Family Village	349,847			349,847
Everett Gospel Mission	392,999		(7,396)	385,603
June 30, 2014 Total	<u>\$ 1,768,304</u>	<u>\$ 7,636</u>	<u>\$ (91,940)</u>	<u>\$ 1,684,000</u>
June 30, 2013 Total	<u>\$ 1,141,008</u>	<u>\$ 9,704</u>	<u>\$ (68,650)</u>	<u>\$ 1,082,062</u>

HOUSING HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014

Note 16 - Continued

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

	<u>Direct Cost</u>	<u>Partnership Mgmt Fees</u>	<u>June 30, 2014 Total</u>	<u>June 30, 2013 Total</u>
Avondate	\$ -	\$ 1,350	\$ 1,350	\$ 32,582
Beachwood				20,522
New Century Village	<u>190</u>	<u>76,625</u>	<u>76,815</u>	<u>64,694</u>
June 30, 2014 Total	<u>\$ 190</u>	<u>\$ 77,975</u>	<u>\$ 78,165</u>	
June 30, 2013 Total	<u>\$ (629)</u>	<u>\$ 118,427</u>		<u>\$ 117,798</u>

Note 17 - Self Insurance

The Agency is a member of the 501(c) Agencies Trust (the Trust). The Trust facilitates the utilization by member agencies of the Reimbursement Financing Method of meeting obligations under State unemployment insurance statutes. As of June 30, 2014, the Agency had deposits with the Trust of \$78,041 which are reported in the consolidated statement of financial position as funds held in trust. As of June 30, 2014, the Agency estimated a liability for incurred-but-not-reported unemployment claims of \$59,543, which is included in accounts payable and accrued expenses in the consolidated statement of financial position.

Note 18 - Purchase and Sale Commitments

As of June 17, 2014, a Purchase and Sale Agreement was in place for the purchase of seven lots in Monroe for the Agency's Team HomeBuilding program. The purchase price is \$595,000 with an application being made to Community Frameworks for HUD SHOP funding in the amount of \$105,000. The balance of the purchase price and other costs will be funded by Housing Hope's internal resources. The closing date of the purchase is anticipated to be before October 31, 2014.

HOUSING HOPE AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2014**

Note 19 - Property Lease Commitments

The Agency is the lessor to three 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 \$800 to \$2,500 per lease, and will be adjusted annually for certain operating costs.

Future minimum lease payments to be received are as follows:

For the Year Ending June 30,

2015	\$	52,952
2016		48,913
2017		44,909
2018		46,194
2019		47,516
Thereafter		<u>175,549</u>
	\$	<u>416,033</u>

SUPPLEMENTARY INFORMATION

HOUSING HOPE AND SUBSIDIARIES

Consolidating Statement of Financial Position - Assets
June 30, 2014
(With Comparative Totals for 2013)

	<i>Housing Hope</i>	<i>Building Credits</i>	<i>Housing Hope Properties</i>	<i>HopeWorks</i>	<i>Subtotal</i>	<i>Eliminations</i>	<i>2014 Consolidated Total</i>	<i>2013 Consolidated Total</i>
Assets								
Current Assets:								
Cash and cash equivalents	\$ 335,066	\$ 667	\$ 457,913	\$ 330,681	\$ 1,124,327	\$ -	\$ 1,124,327	\$ 1,069,874
Short-term investments	228,925				228,925		228,925	254,668
Accounts receivable, net	28,292		531,972	45,393	605,657		605,657	586,277
Grants and contracts receivable	128,378		25,559		153,937		153,937	152,258
Due from affiliates	190	77,975			78,165		78,165	117,798
Current portion of notes receivable, accrued interest and deferred developer fees due from affiliates	84,544		7,396		91,940		91,940	68,650
Pledges receivable, current portion	28,617			49,347	77,964		77,964	222,343
Real estate inventory	585,010				585,010		585,010	1,111,205
Prepaid expenses	140,289		4,105	22,074	166,468		166,468	129,658
Total Current Assets	1,559,311	78,642	1,026,945	447,495	3,112,393		3,112,393	3,712,731
Assets Whose Use is Limited or Restricted:								
Assets designated by board for long-term reserves and investment in long-term assets	1,618,774		460,314		2,079,088		2,079,088	1,737,238
Assets restricted by donors for the investment in long-term assets	303,919			50,900	354,819		354,819	51,140
Assets restricted by donors for endowments and long-term reserves	1,474,697				1,474,697		1,474,697	1,408,463
Restricted reserves and deposits	252,125		50,253		302,378		302,378	284,904
Funds held in trust	146,749				146,749		146,749	320,060
Land, building, and equipment, net	30,865,718		119,465	2,001,379	32,986,562		32,986,562	30,690,391
Other Assets:								
Notes receivable, accrued interest and deferred developer fees due from affiliates, net of current portion	1,341,549		342,451		1,684,000		1,684,000	1,082,062
Project development costs	1,659,559			134,810	1,794,369		1,794,369	397,360
Investment in limited partnerships and limited liability companies		1,587,029			1,587,030		1,587,030	1,686,977
Total Assets	\$ 39,222,401	\$ 1,665,671	\$ 1,999,428	\$ 2,634,584	\$ 45,522,085	\$ -	\$ 45,522,085	\$ 41,371,326

See independent auditor's report.

HOUSING HOPE AND SUBSIDIARIES

**Consolidating Statement of Financial Position - Liabilities and Net Assets
June 30, 2014
(With Comparative Totals for 2013)**

	<i>Housing Hope</i>	<i>Building Credits</i>	<i>Housing Hope Properties</i>	<i>HopeWorks</i>	<i>Subtotal</i>	<i>Eliminations</i>	<i>2014 Consolidated Total</i>	<i>2013 Consolidated Total</i>
Liabilities And Net Assets								
Current Liabilities:								
Short-term borrowings	\$ 349,881	\$ -	\$ -	\$ 13,456	\$ 363,337	\$ -	\$ 363,337	\$ 181,902
Accounts payable and accrued expenses	548,276		80,258	27,231	655,765		655,765	707,189
Construction payable				57,303	57,303		57,303	189,258
Deferred revenue								
Current portion of accrued interest	55,456			6,653	62,109		62,109	49,141
Current portion of long-term debt	347,779			80,939	428,718		428,718	713,292
Total Current Liabilities	1,301,392		80,258	185,582	1,567,232		1,567,232	1,840,782
Accrued long-term expenses	79,212		20,242	7,179	106,633		106,633	107,196
Accrued interest on long-term debt	685,675				685,675		685,675	593,480
Long-term debt, net of current portion	21,481,574		124,688	1,924,985	23,531,247		23,531,247	20,181,791
Total Liabilities	23,547,853		225,188	2,117,746	25,890,787		25,890,787	22,723,249
Net Assets:								
Unrestricted-								
Undesignated	5,691,828	1,587,912	1,508,004	465,938	9,253,682		9,253,682	8,346,314
Designated by the Board of Directors	2,352,921				2,352,921		2,352,921	1,984,877
Total unrestricted	8,044,749	1,587,912	1,508,004	465,938	11,606,603		11,606,603	10,331,191
Temporarily restricted	6,772,468	77,759	266,236	50,900	7,167,363		7,167,363	7,601,924
Permanently restricted	857,332				857,332		857,332	714,962
Total Net Assets	15,674,549	1,665,671	1,774,240	516,838	19,631,298		19,631,298	18,648,077
Total Liabilities and Net Assets	\$ 39,222,402	\$ 1,665,671	\$ 1,999,428	\$ 2,634,584	\$ 45,522,085	\$ -	\$ 45,522,085	\$ 41,371,326

See independent auditor's report.

HOUSING HOPE AND SUBSIDIARIES

**Consolidating Statement of Activities
For the Year Ended June 30, 2014
(With Comparative Totals for 2013)**

	<i>Housing Hope</i>	<i>Building Credits</i>	<i>Housing Hope Properties</i>	<i>HopeWorks</i>	<i>Subtotal</i>	<i>Eliminations</i>	<i>2014 Consolidated Total</i>	<i>2013 Consolidated Total</i>
Public Support, Revenues Gains and (Losses):								
Public support-								
Contributions	\$ 1,172,628	\$ -	\$ 322,046	\$ 150,552	\$ 1,645,226	\$ -	\$ 1,645,226	\$ 1,744,851
In-kind contributions	157,697		6,177	93,459	257,333		257,333	152,988
In-kind contribution of the Beachwood Apts	1,190,989				1,190,989		1,190,989	
In-kind contribution of long-term assets	175,112				175,112		175,112	
Forgivable loan proceeds			8,000		8,000		8,000	709,784
United Way	144,500				144,500		144,500	127,158
Total Public Support	2,840,926		336,223	244,011	3,421,160		3,421,160	2,734,781
Fees and grants from governmental agencies	924,722		582,676	72,418	1,579,816		1,579,816	1,536,978
Other Revenue, Gains and (Losses):								
Program service fees and rents	3,233,694		150	328,330	3,562,174		3,562,174	3,330,287
Management and development fees	12,000	54,785	120,310		187,095		187,095	128,806
Interest and other income (loss)	396,597	(29)	40,570	8,612	445,750		445,750	315,523
Impairment of fixed assets			(70,937)		(70,937)		(70,937)	(65,515)
Gain on sale of real estate inventory and other assets	269,859		181,804	21,484	473,147		473,147	372,835
Total Other Revenue	3,912,150	54,756	271,897	358,426	4,597,229		4,597,229	4,081,936
Total Support, Revenue and Gains and (Losses)	\$ 7,677,798	\$ 54,756	\$ 1,190,796	\$ 674,855	\$ 9,598,205	\$ -	\$ 9,598,205	\$ 8,353,695

See independent auditor's report.

HOUSING HOPE AND SUBSIDIARIES

**Consolidating Statement of Activities (Continued)
For the Year Ended June 30, 2014
(With Comparative Totals for 2013)**

	<i>Housing Hope</i>	<i>Building Credits</i>	<i>Housing Hope Properties</i>	<i>HopeWorks</i>	<i>Subtotal</i>	<i>Eliminations</i>	<i>2014 Consolidated Total</i>	<i>2013 Consolidated Total</i>
Expenses:								
Salary and wages	\$ 2,486,172	\$ 168	\$ 476,783	\$ 446,088	\$ 3,409,211	\$ -	\$ 3,409,211	\$ 2,950,775
Payroll taxes	233,125	15	45,611	49,720	328,471		328,471	325,295
Employee benefits	290,725		51,707	33,157	375,589		375,589	405,181
Total payroll costs	3,010,022	183	574,101	528,965	4,113,271		4,113,271	3,681,251
Professional fees	549,128		6,166	10,855	566,149		566,149	544,911
Supplies	247,560		4,350	14,389	266,299		266,299	176,161
Printing and postage	39,888		4,037	2,706	46,631		46,631	97,928
Information technology	131,620		9,443	17,841	158,904		158,904	140,457
Occupancy	541,627		27,565	32,332	601,524		601,524	536,514
Maintenance and repairs	318,718		3,959	13,016	335,693		335,693	323,486
Equipment and furniture	73,998		18,674	12,295	104,967		104,967	107,765
Vehicles	13,238		137	24,877	38,252		38,252	25,734
Insurance	134,537		1,956	7,159	143,652		143,652	144,313
Education and training	11,411		11,464	888	23,763		23,763	34,212
Mileage and travel	60,179		14,945	1,911	77,035		77,035	78,072
Client assistance	69,038		1,324	63	70,425		70,425	130,992
Interest, taxes and fees	797,351		45,458	20,343	863,152		863,152	745,807
Marketing and Advertising	19,971		1,886	19,801	41,658		41,658	81,141
Miscellaneous	49,253		186	16,989	66,428		66,428	70,690
Total expenses before depreciation and amortization	6,067,539	183	725,651	724,430	7,517,803		7,517,803	6,919,434
Depreciation and amortization	1,007,312		72,820	17,049	1,097,181		1,097,181	1,001,887
Total Expenses	7,074,851	183	798,471	741,479	8,614,984		8,614,984	7,921,321
Net change in net assets	602,947	54,573	392,325	(66,624)	983,221		983,221	432,374
Net assets beginning of year	14,504,440	1,806,071	1,617,065	720,501	18,648,077		18,648,077	18,215,703
Transfer to (from)	567,163	(194,973)	(235,150)	(137,040)				
Net Assets, End of Year	\$ 15,674,550	\$ 1,665,671	\$ 1,774,240	\$ 516,837	\$ 19,631,298	\$ -	\$ 19,631,298	\$ 18,648,077

See independent auditor's report.