HOUSING TRUST SILICON VALLEY

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED JUNE 30, 2017 AND 2016

HOUSING TRUST SILICON VALLEY

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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Board of Directors
Housing Trust Silicon Valley
San Jose, California

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Housing Trust Silicon Valley, a California nonprofit public benefit corporation, which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

BKR INTERNATIONAL
CERTIFIED PUBLIC ACCOUNTANTS, 90 New Montgomery, 11th Floor, San Francisco, California 94105
Telephone 415 957 9999 Facsimile 415 957 1629 Email mail@lvhj.com http://www.lvhj.com

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Housing Trust Silicon Valley as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards on page 32 as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued a report dated October 12, 2017 on our consideration of Housing Trust Silicon Valley'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 Housing Trust Silicon Valley's internal control over financial reporting and compliance.

Lindquist, von Husen and Joyce LLP

October 12, 2017

HOUSING TRUST SILICON VALLEY

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
Current assets:		
Unrestricted cash and investments:		
Cash and cash equivalents	$ 24,715,971	$ 11,318,819
Certificates of deposit	4,022,542	7,146,960
Investment portfolio (Note 3)	4,315,183	3,985,433
Less: cash and investments restricted for programs	(23,624,053)	(13,521,830)
Total unrestricted cash and investments	9,429,643	8,929,382
Cash and investments restricted for programs	23,624,053	13,521,830
Receivables (Note 4)	309,557	1,080,686
Prepaid expenses	32,801	40,200
Notes receivable, net – current (Note 5)	10,450,475	12,942,700
Total current assets	43,846,529	36,514,798
Notes receivable, net – net of current portion (Note 5):		
Homebuyer programs	11,260,612	13,371,083
Multi-Family programs	54,600,488	28,680,733
Neighborhood Stabilization Program 2	1,511,878	6,708,884
Less: allowance for loan losses	(1,680,000)	(1,204,000)
Total notes receivable, net	65,692,978	47,556,700
Less: current portion	(10,450,475)	(12,942,700)
Total notes receivable, net – net of current portion	55,242,503	34,614,000
Deferred interest receivable	1,029,689	941,182
Property and equipment, net (Note 6)	24,678	38,731
Other assets	30,450	28,500
Total assets	$ 100,173,849	$ 72,137,211
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 224,325	$ 128,630
Accrued expenses	187,696	160,348
Grants payable (Note 10)	10,372	10,372
Deferred revenue – current portion (Note 11)	1,011,485	1,303,726
Non-recourse capital from third parties – current portion (Note 7)	3,258,141	3,392,774
Notes payable – current portion (Note 8)	2,600,000	500,000
Total current liabilities	7,292,019	5,495,850
Deferred revenue – net of current portion (Note 11)	8,546,891	2,952,692
Non-recourse capital from third parties – net of current portion (Note 7)	5,524,004	2,923,097
Notes payable – net of current portion (Note 8)	20,075,000	8,150,000
Total liabilities	41,437,914	19,521,639
Net assets:		
Unrestricted	27,756,271	26,973,564
Temporarily restricted (Note 12)	30,979,664	25,642,008
Total net assets	58,735,935	52,615,572
Total liabilities and net assets	$ 100,173,849	$ 72,137,211

The accompanying notes are an integral part of these consolidated financial statements.

HOUSING TRUST SILICON VALLEY

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2017 AND 2016

	2017			2016		
	Unrestricted	*Temporarily Restricted*	*Total*	*Unrestricted*	*Temporarily Restricted*	*Total*
Support and revenue:						
Government grants and contributions:						
NSP2	$ -	$ 156,304	$ 156,304	$ 30,814	$ 2,324,645	$ 2,355,459
Other grants and contributions	30,977	6,542,154	6,573,131	12,006	4,667,455	4,679,461
Other contributions	388,771	1,018,824	1,407,595	1,291,068	6,072,764	7,363,832
Revenue from special events	289,381	-	289,381	282,722	-	282,722
Less: cost of special events	(51,348)	-	(51,348)	(95,299)	-	(95,299)
Interest income	861,762	198,646	1,060,408	715,161	-	715,161
Investment return (Note 3)	465,836	-	465,836	76,267	-	76,267
Program service fees	1,106,193	-	1,106,193	723,689	-	723,689
In-kind contribution	236,503	-	236,503	-	-	-
Miscellaneous income	65,000	-	65,000	-	-	-
Net assets released from restrictions (Note 12)	2,578,272	(2,578,272)	-	1,742,311	(1,742,311)	-
Total support and revenue	5,971,347	5,337,656	11,309,003	4,778,739	11,322,553	16,101,292
Expenses:						
Program services	4,219,086	-	4,219,086	2,847,872	-	2,847,872
Management and general	704,835	-	704,835	586,323	-	586,323
Fundraising	264,719	-	264,719	192,021	-	192,021
Total expenses	5,188,640	-	5,188,640	3,626,216	-	3,626,216
Change in net assets	782,707	5,337,656	6,120,363	1,152,523	11,322,553	12,475,076
Net assets, beginning of year	26,973,564	25,642,008	52,615,572	25,821,041	14,319,455	40,140,496
Net assets, end of year	$ 27,756,271	$ 30,979,664	$ 58,735,935	$ 26,973,564	$ 25,642,008	$ 52,615,572

The accompanying notes are an integral part of these consolidated financial statements.

HOUSING TRUST SILICON VALLEY

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2017 AND 2016

	2017											
	Program Services								*Supporting Services*			
	Home Buyer	*Muti-Family Loan Programs*	*Safety Net & Homeless Prevention*	*Asset Management*	*HUD NSP 2*	*Advocacy and Policy*	*SV@Home*	*Total Program Services*	*Management and General*	*Fundraising*	*Total Supporting Services*	*Total*
Salaries and benefits	$ 188,957	$ 541,413	$ 42,357	$ 222,899	$ 27,418	$ 72,256	$ 287,306	$ 1,382,606	$ 511,083	$ 178,850	$ 689,933	$ 2,072,539
Office rent	10,438	29,908	2,340	12,313	1,515	3,990	31,667	92,171	28,233	9,880	38,113	130,284
Marketing and communications	618	1,038	42	1,062	27	71	1,803	4,661	1,192	49,428	50,620	55,281
Investment management and bank fees	970	2,778	218	1,144	141	370	1,705	7,326	35,543	918	36,461	43,787
Professional fees	21,953	17,969	5,946	15,069	5,389	24,206	16,567	107,099	54,494	5,192	59,686	166,785
Meetings, conferences and travel	2,361	13,765	297	856	51	134	7,960	25,424	15,260	4,021	19,281	44,705
Grants awarded (Note 10)	-	100,000	835,276	-	-	-	584,260	1,519,536	-	-	-	1,519,536
Interest	-	260,415	-	-	-	-	-	260,415	-	-	-	260,415
Donations/sponsorships	-	6,100	-	-	-	-	100	6,200	7,000	500	7,500	13,700
In kind expense	-	194,883	-	-	-	-	36,339	231,222	-	5,281	5,281	236,503
Other operating expenses	17,321	21,836	911	8,511	589	1,554	36,181	86,903	47,216	8,964	56,180	143,083
Total operating expenses before provision for loan losses, and depreciation	242,618	1,190,105	887,387	261,854	35,130	102,581	1,003,888	3,723,563	700,021	263,034	963,055	4,686,618
Provision for loan losses	(197,500)	680,000	-	-	-	-	-	482,500	-	-	-	482,500
Depreciation	1,780	5,100	399	2,100	258	680	2,706	13,023	4,814	1,685	6,499	19,522
Total expenses as shown in the consolidated statements of activities	46,898	1,875,205	887,786	263,954	35,388	103,261	1,006,594	4,219,086	704,835	264,719	969,554	5,188,640
Cost of special events	-	-	-	-	-	-	(1,141)	(1,141)	-	52,489	52,489	51,348
Total expenses	$ 46,898	$ 1,875,205	$ 887,786	$ 263,954	$ 35,388	$ 103,261	$ 1,005,453	$ 4,217,945	$ 704,835	$ 317,208	$ 1,022,043	$ 5,239,988

The accompanying notes are an integral part of these consolidated financial statements.

HOUSING TRUST SILICON VALLEY

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2017 AND 2016

	2016											
	Program Services								*Supporting Services*			
	Home Buyer	*Muti-Family Loan Programs*	*Safety Net & Homeless Prevention*	*Asset Management*	*HUD NSP2*	*Advocacy and Policy*	*SV@Home*	*Total Program Services*	*Management and General*	*Fundraising*	*Total Supporting Services*	*Total*
Salaries and benefits	$ 177,134	$ 395,115	$ 90,064	$ 262,414	$ 58,696	$ 117,662	$ 372,680	$ 1,473,765	$ 381,638	$ 122,479	$ 504,117	$ 1,977,882
Office rent	11,915	26,579	6,058	17,652	3,948	7,915	25,069	99,136	25,672	8,239	33,911	133,047
Marketing and communications	1,112	1,169	147	692	96	192	4,199	7,607	622	51,706	52,328	59,935
Investment management and bank fees	330	736	168	489	199	219	1,728	3,869	31,779	228	32,007	35,876
Professional fees	27,891	40,471	1,668	15,285	6,785	35,724	10,077	137,901	85,972	2,268	88,240	226,141
Meetings, conferences and travel	2,521	11,002	264	2,677	1,190	58	9,825	27,537	4,384	404	4,788	32,325
Grants awarded (Note 10)	131,173	-	463,838	-	39,170	-	-	634,181	20,000	-	20,000	654,181
Loan administration	24,097	-	-	2,750	-	-	-	26,847	-	-	-	26,847
Interest	-	102,119	-	-	-	-	-	102,119	-	-	-	102,119
Donations/sponsorships	-	4,500	-	-	-	9,500	-	14,000	525	-	525	14,525
In kind expense	-	-	-	-	-	-	-	-	-	-	-	-
Other operating expenses	8,963	20,558	2,296	9,271	2,224	12,083	19,893	75,288	32,930	5,798	38,728	114,016
Total operating expenses before provision for loan losses, and depreciation	385,136	602,249	564,503	311,230	112,308	183,353	443,471	2,602,250	583,522	191,122	774,644	3,376,894
Provision for loan losses	59,000	170,000	-	-	-	-	-	229,000	-	-	-	229,000
Depreciation	1,300	2,899	661	7,732	431	864	2,735	16,622	2,801	899	3,700	20,322
Total expenses as shown in the consolidated statements of activities	445,436	775,148	565,164	318,962	112,739	184,217	446,206	2,847,872	586,323	192,021	778,344	3,626,216
Cost of special events	-	-	-	-	-	-	31,149	31,149	-	64,150	64,150	95,299
Total expenses	$ 445,436	$ 775,148	$ 565,164	$ 318,962	$ 112,739	$ 184,217	$ 477,355	$ 2,879,021	$ 586,323	$ 256,171	$ 842,494	$ 3,721,515

The accompanying notes are an integral part of these consolidated financial statements.

HOUSING TRUST SILICON VALLEY

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 6,120,363	$ 12,475,076
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Unrealized (gain) loss on investments	(205,206)	40,697
Unrealized appreciation of ESCO notes receivable	(21,313)	(25,722)
Provision for loan losses	482,500	229,000
Amortization of discount on notes receivable	(54,945)	-
Contributed notes receivable, net	(490,073)	(4,450,803)
Depreciation	19,522	20,322
(Increase) decrease in assets:		
Receivables	771,129	351,170
Prepaid expenses	7,399	(7,975)
Deferred interest receivable	(67,194)	(172,598)
Other assets	(1,950)	(28,500)
Increase (decrease) in liabilities:		
Accounts payable	95,695	36,399
Accrued expenses	27,348	52,614
Grants payable	-	(18,392)
Deferred revenue	5,301,958	3,724,380
Net cash provided by operating activities	11,985,233	12,225,668
Cash flows from investing activities:		
(Increase) decrease in certificates of deposit and investments	2,999,874	(7,384,636)
Notes receivable disbursed	(32,190,818)	(14,878,815)
Collection of notes receivable	14,117,058	8,142,155
Purchase of property and equipment	(5,469)	(16,637)
Net cash used in investing activities	(15,079,355)	(14,137,933)
Cash flows from financing activities:		
Non-recourse capital from third parties received	6,118,398	3,110,192
Non-recourse capital from third parties returned	(3,652,124)	(1,797,134)
Payment of notes payable	(4,400,000)	(1,500,000)
Proceeds from notes payable	18,425,000	3,500,000
Net cash provided by financing activities	16,491,274	3,313,058
Net increase in cash and cash equivalents	13,397,152	1,400,793
Cash and cash equivalents, beginning of year	11,318,819	9,918,026
Cash and cash equivalents, end of year	$ 24,715,971	$ 11,318,819
Supplementary information:		
Cash and cash equivalents paid for interest	$ 245,361	$ 99,619

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Housing Trust Silicon Valley (Housing Trust) was incorporated on May 22, 2000 as a non-profit public benefit corporation. Housing Trust's mission is to make the greater San Francisco Bay Area a more affordable place to live. Housing Trust makes loans and grants to increase and preserve the supply of affordable housing, assist homebuyers, prevent homelessness and stabilize neighborhoods. Housing trust plays an important role in the overall affordable housing ecosystem of government entities, lawmakers, policy advocates, and housing developers, among others, engaged in the shared goal of making housing more affordable in the region it serves. Housing Trust works within the challenging environment of the California housing crisis to make loans and grants to affordable housing developers, first time homebuyers, and safety net service providers.

In order to increase and preserve the supply of affordable housing throughout the greater San Francisco Bay Area and the Monterey Bay Area, Housing Trust currently offers the following programs:

- Homebuyer Programs – Housing Trust offers down payment assistance loans to first-time homebuyers, and education and counseling to hopeful homebuyers. Housing Trust currently offers a GAP Assistance Program to help qualified homebuyers in Silicon Valley with a deferred second mortgage that could serve as a down payment. Housing Trust also administers the City of Santa Clara's Below Market Program, facilitating the sale of below market ownership to qualified buyers.

- Multi-Family Rental Program – The program is designed to help create and preserve affordable multi-family rental housing units in communities throughout San Francisco Bay Area and the Monterey Bay Area through loans to qualified developers of affordable multi-family rental housing.

- Safety Net and Homeless Grant Programs – Housing Trust administers grant and loan programs for organizations who are a part of the safety net and who support homeless families and individuals. The Finally Home program provides assistance to individuals and families moving from homelessness or unsuitable housing into permanent sustainable housing in the form of security deposit assistance grants. In addition with grants from Santa Clara County, Housing Trust makes loans and grants to organizations who provide shelter and services to very low income and homeless individuals.

- Asset Management Services – Housing Trust provides outsourced administration and advisory services to cities' BMR (Below Market Rate) housing programs. Housing Trust partners with the cities and their developers to help market, outreach and to qualify buyers for below market price condos and townhomes. In addition, Housing Trust advises, performs special projects and administers several loan programs for cities and counties.

- Neighborhood Stabilization Program (NSP2) – In February 2010, Housing Trust was awarded $25,000,000 in NSP2 funds from the U.S. Department of Housing and Urban Development (HUD) under the American Recovery and Reinvestment Act. Housing Trust is the lead entity in the San Jose Consortium, which also includes the City of San Jose (the City) and Neighborhood Housing Services Silicon Valley. These NSP2 funds are being used in targeted areas across 35 census tracts that have been the hardest hit by foreclosures within the City of San Jose. Housing Trust has invested all of the funds and is in the process of closing out the grant.

- Advocacy and Policy – Housing Trust launched SV@Home, an affordable housing policy and education program in June 2015. SV@Home is the new voice for affordable housing in the Silicon Valley. Housing Trust incubated this organization as one of its programs for two years. SV@Home advocates for policies, programs, land use, and funding that lead to an increased supply of affordable housing. Additionally, SV@Home educates elected officials and the community about the need for housing and the link between housing and other quality of life outcomes, including education, health, transportation and the environment. On January 1, 2017, SV@Home became an independent 501(c)(3) nonprofit organization and the net assets resulting from donations, grants and events, net of expenses were transferred to SV@Home on that date (see Note 10).

Housing Trust is certified as a Community Development Financial Institution (CDFI) by the U.S. Department of Treasury – CDFI Fund. Over time, Housing Trust receives Financial Assistance awards from the CDFI Fund. CDFIs are required to match Financial Assistance Awards dollar-for-dollar with non-federal funds. In the future, the Housing Trust expects to apply for such loans and grants.

Housing Trust Silicon Valley is the first nonprofit CDFI in the U.S. to earn a credit rating from Standard & Poor's Ratings Services (S&P). During 2015, S&P assigned its 'AA-'issuer credit rating (stable outlook) to Housing Trust. The rating came after an extensive review of Housing Trust's financial activities, strategic plans, and future prospects. The rating was renewed at 'AA-' in July of 2016, and S&P is expected to complete its 2017 annual review shortly after the completion of audited financials in October 2017.

Housing Trust is also the sole member of LTOA, LLC (LTOA), a California limited liability company formed on July 2, 2012. These financial statements consolidate the activities of Housing Trust and LTOA.

Housing Trust revenues fluctuate from year to year due to public support and contributions from the federal government, Santa Clara County, and other government agencies and local corporations. Its lending programs are especially vulnerable to the inherent risks associated with revenue that is substantially dependent on government funding. However, with the development of bank loan pools, EQ2 loans, and its Community Impact Note and other notes arising from the T.E.C.H. Fund campaign, Housing Trust's sources of funds have diversified. Housing Trust continues to be dependent on corporate and individual contributions, however, its self-sufficiency ratio has improved to 87% in fiscal year 2017 such that it is less dependent upon such contributions to support operations than in prior years.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of a subsidiary, LTOA, LLC. Housing Trust is the sole member of LTOA, LLC. All significant intercompany transactions and balances have been eliminated in the consolidation.

Accounting Method

Housing Trust uses the accrual method of accounting, which recognizes income in the period earned and expenses when incurred, regardless of the timing of payments.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

Housing Trust reports information regarding its financial position and activities according to up to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets, as applicable.

Revenue Recognition

Contributions are recognized as revenue when they are unconditionally communicated. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. Contributions are recorded at their fair value as unrestricted support, temporarily restricted support, or permanently restricted support, depending on the absence or existence of donor-imposed restrictions as applicable. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Contributions restricted for the purchase of long-lived assets, are reported as unrestricted when expended for that purpose.

Contributions receivable, that are expected to be collected in future years, are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the contributions are received. Amortization of the discounts, if any, is included in contribution revenue. Conditional contributions, if any, are not included as support until the conditions are substantially met.

Contributed services are stated at their estimated fair value, if they are ordinarily purchased and are of a specialized nature.

Cash and Cash Equivalents

Cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are highly liquid investments that are readily convertible to known amounts of cash. Generally, only investments with original maturities of 3 months or less qualify as cash equivalents. Housing Trust occasionally maintains cash on deposit at various banks in excess of the Federal Deposit Insurance Corporation limit. The uninsured cash balance was approximately $10,881,000 as of June 30, 2017. Housing Trust has not experienced any losses in such accounts.

Certificates of Deposit

Certificates of deposit represent deposits with original maturities greater than 3 months. Like cash and cash equivalents, the certificates of deposit are highly liquid investments and are not subject to withdrawal limitations. The certificates are stated at fair value based on quoted prices in active markets (all Level 1 measurements). The fair value of the certificates of deposit approximate the cost basis, which includes the amount initially invested plus accrued interest.

Investment Portfolio

Investments are presented in the consolidated financial statements at fair value based on quoted prices in active markets. Under accounting principles generally accepted in the United States of America, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date.

Accounting principles generally accepted in the United States of America establish a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of Housing Trust. Unobservable inputs, if any, reflects Housing Trust's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that Housing Trust has the ability to access at measurement date. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 – Valuations based on significant inputs that are observable, either directly or indirectly or quoted prices in markets that are not active, that is, markets in which there are few transactions, the prices are not current or price quotations vary substantially either over time or among market makers.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors, including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed.

Notes Receivable and Allowance for Loan Losses

Notes receivable received solely for cash are carried at their outstanding principal balances, net of an allowance for loan losses. Contributed notes receivable are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates (including a premium) applicable to the years in which the contributed notes receivable are received. Amortization of discounts, if any, is included in contribution revenue. Loan origination fees are recognized immediately, which management has determined is not materially different from accounting principles generally accepted in the United States of America. Management has the intent and ability to hold these notes in the foreseeable future or until maturity or payoff.

An allowance for loan losses is established through a charge to the consolidated statements of activities and decreased by loss as charged against loans, net of recoveries. The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, and economic conditions.

Property and Equipment

Property and equipment is stated at cost of acquisition or fair value, if donated. The costs of maintenance and repairs are charged to expense as incurred. Depreciation is computed based on the straight-line method over the estimated useful lives of the assets ranging from 3 to 5 years.

Income Taxes

Housing Trust is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and the related California code sections. Contributions to Housing Trust qualify for the charitable contribution deduction and Housing Trust is not classified as a private foundation.

No income tax provision has been included in the consolidated financial statements for the single member limited liability company (LLC) which is generally considered a disregarded entity. The income and loss of the LLC is included in the tax return of its sole member. Only the annual California limited liability company minimum tax and the annual fee appear as expense in the consolidated financial statements.

Housing Trust believes that it has appropriate support for any tax positions taken, and as such, do not have any uncertain tax positions that are material to the consolidated financial statements. Housing Trust's federal and state information returns for the years 2013 through 2016 are subject to examination by regulatory agencies, generally for three years and four years after they were filed federal and state, respectively.

Functional Expense Allocation

The costs of providing program services and supporting services are summarized on a functional basis in the consolidated statements of activities and consolidated statements of functional expenses. Accordingly, certain costs are allocated among program services and supporting services based on estimates of employees' time incurred and on usage of resources.

Subsequent Events

Housing Trust has evaluated subsequent events through October 12, 2017, the date on which the consolidated financial statements were available to be issued.

Reclassification

Certain amounts previously reported in the 2016 financial statements were reclassified to conform to the 2017 presentation for comparative purposes.

NOTE 3 – INVESTMENT PORTFOLIO

Housing Trust's investments can be liquidated at any time. Housing Trust manages their investments under three separate objectives serving different goals and purposes as follows:

Long Term Reserve

The Long Term Reserve consists of excess unrestricted cash that is not expected to be needed for Housing Trust operations in the coming five years and therefore can be invested medium-term and in equities. The investment objective of this fund is to provide income to support the ongoing operations of Housing Trust while achieving growth to insure the portfolio value grows equal to or exceeding inflation. The Long Term Reserve is forecasted in detail at each three year strategic planning cycle and reviewed and updated annually. At June 30, 2017 and 2016, this reserve was $5,000,000, which includes amounts classified as cash and cash equivalents and certificates of deposit.

General Investment Reserve

The General Investment Reserve consists of funds, most often restricted program funds, which will not be deployed within the ensuing 12 months but will likely be deployed within 18 months to 4 years. The investment objective of these funds is capital preservation and income generation but with a longer duration than the Short Term Operating Funds. This reserve is determined based on a medium term cash flow forecast and is reassessed at least annually. At June 30, 2017 and 2016, this reserve was $2,000,000, which includes amounts classified as cash and cash equivalents and certificates of deposit.

Short-Term Operating Funds

Short-term operating funds should be available to satisfy short-term cash flow requirements as determined by management. This pool includes funds that can be expected to be lent out within a year. The funds are invested exclusively in cash and cash equivalent securities in order to maintain a high degree of liquidity. At June 30, 2017 and 2016, short term operating cash was $14,658,717 and $5,296,625, respectively, which includes amounts classified as cash and cash equivalents and certificates of deposit.

Investments are summarized as follows:

	2017		2016	
	Cost	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Cost*	*Quoted Prices in Active Markets for Identical Assets (Level 1)*
Domestic fixed income	$ 2,166,943	$ 2,248,083	$ 1,709,134	$ 1,703,549
Domestic equity	1,442,769	1,552,978	1,729,321	1,731,864
Foreign equity mutual funds	330,249	383,902	339,997	341,343
Foreign fixed income	129,488	130,220	206,201	208,677
	$ 4,069,449	$ 4,315,183	$ 3,984,653	$ 3,985,433

Investment management fees of $32,875 and $31,068 for 2017 and 2016, respectively, are included in investment management and bank fees on the consolidated statements of functional expenses, separate from investment return. Investment return consists of the following components:

	2017	2016
Interest	$ 123,284	$ 103,852
Dividends	46,783	43,937
Unrealized gains (losses)	205,206	(40,697)
Realized gains (losses)	90,563	(30,825)
	$ 465,836	$ 76,267

NOTE 4 – RECEIVABLES

Receivables are summarized as follows:

	2017	2016
Contributions:		
Restricted for programs	$ 150,000	$ 899,120
Unrestricted contributions	250	188
Total contributions receivable	150,250	899,308
Other receivable	159,307	181,378
Total receivables – current	$ 309,557	$ 1,080,686

NOTE 5 – NOTES RECEIVABLE

Notes receivable consist of the following:

	2017	2016
Homebuyer Programs:		
Closing Cost Assistance Program (CCA) (1)	$ 3,208,093	$ 3,927,839
Mortgage Assistance Program (MAP) (2)	2,307,330	3,505,879
Equity Share Co-Investment (ESCO) (3)	183,756	270,756
Gap Assistance Program (GAP) (4)	1,750,521	1,868,380
NHS Portfolio:		
Contributed Deferred Loans (5)	3,718,023	3,655,900
Contributed Amortizing Loans (5)	315,372	404,857
Less: discount on contributed loans (5)	(291,353)	(262,528)
Purchased Amortizing Loans (6)	307,159	-
Less: discount on purchased loans (6)	(238,289)	-
	11,260,612	13,371,083

	2017	2016
Multi-Family Programs:		
Affordable Housing Developer Loans (7)		
Short Term Loans	38,298,645	12,365,005
Term Loans	2,255,245	2,107,016
Deferred Term Loans	14,046,598	14,208,712
	54,600,488	28,680,733
Neighborhood Stabilization Program 2 (NSP2):		
Purchase Assistance Loan (PAL) (8)	1,511,878	1,708,884
VLI Affordable Multi-Family Housing (9)	-	5,000,000
	1,511,878	6,708,884
Gross notes receivable	67,372,978	48,760,700
Less: allowance for loan losses	(1,680,000)	(1,204,000)
Net notes receivable	65,692,978	47,556,700
Less: current portion	(10,450,475)	(12,942,700)
Long-term portion	$ 55,242,503	$ 34,614,000

Homebuyer Programs

Homebuyer programs are designed to help qualified homebuyers in Santa Clara County purchase their home. Applicants must meet household income requirements as set forth by HUD and must not have owned a home in Santa Clara County within three years of application date. Borrower's first loan must be a 30-year fixed mortgage. In addition, borrowers must reside in the financed home as their principal residence or a default has occurred and the loan becomes due and payable immediately. With the cost of housing continuing to soar in the region, it is increasingly difficult for the first time homebuyers that qualify for Housing Trust programs to locate a property which has lowered the demand for existing programs. Housing Trust plans to release a new program in 2018 to help low to moderate income homebuyers purchase their first homes. Housing Trust's homebuyer programs are as follows:

(1) CCA – provided loans up to $50,000, secured by deeds of trust with 0% to 3% simple interest. Payment of principal and accrued interest is deferred until the maturity date of the related first loan, or upon any sale, transfer assignment or refinance of the first loan or upon default of the terms of the Housing Trust loan, whichever occurs first.

(2) MAP – provided loans up to $85,000, 30-year amortized second mortgage, secured by deeds of trust with interest at a rate of 1% to 1.5% above the interest rate on the related first mortgage. Payment of principal and interest are due monthly or upon any sale, transfer assignment or refinance of the first loan or upon default of the terms of the Housing Trust loan, whichever occurs first.

(3) ESCO – provided loans in an amount up to $75,000, secured by deeds of trust and bearing interest at 0%. Housing Trust matched the downpayment amount up to the maximum loan amount. Payment is deferred with entire balance due in full in 15 years, or upon any sale, transfer assignment or refinance of the first loan or upon default of the terms of the Housing Trust Loan, whichever occurs first. There are no interest payments due on the ESCO loan. Instead, borrower will share a portion of their home's appreciation with the Housing Trust at the time of sale, prepayment or refinance of the first loan or upon default based upon a calculation as defined by the loan agreement. Housing Trust's share of the portfolio's homes appreciation was $125,522 and $158,883 as of June 30, 2017 and 2016, respectively, which is included in deferred interest receivable on the consolidated statements of financial position.

(4) GAP – The only program still making new loans as of June 30, 2017 offers a maximum loan amount of 20% of the purchase price up to $95,000, secured by deeds of trust and bears interest at 3%. Payment of principal and accrued interest is deferred until maturity date of the related first loan, or upon any sale, transfer, assignment or refinance of the first loan or upon default of the terms of Housing Trust loan, whichever occurs first.

(5) Housing Trust received a portfolio of notes receivable contributed by Neighborhood Housing Silicon Valley (NHSSV) upon its dissolution. The NHS Deferred Loan Portfolio consist of loans ranging from $8,000 to $80,000 in face value and bear interest at between 2% and 3%. Payment of principal and accrued interest is deferred until maturity date of the related first loan, or upon any sale, transfer, assignment or refinance of the first loan or upon default of the terms of the loan, whichever occurs first. The NHS Amortizing Loan Portfolio consist of loans that have a face value of between $12,000 and $26,000 and carry interest of between 3% and 8%. They have a provision to begin amortizing after five years.

In 2017, Housing Trust received additional loans from NHSSV to add to the Deferred Loan Portfolio with face value of $565,000 and interest receivable of $18,214.

These notes were recorded at fair value on the contribution date.

	2017		2016	
	Face Amount	*Unobservable Inputs (Level 3)*	*Face Amount*	*Unobservable Inputs (Level 3)*
NHS Deferred Loan Portfolio	$ 565,000	$ 490,073	$ 3,655,900	$ 3,393,372
NHS Amortizing Loan Portfolio	-	-	404,857	404,857
	$ 565,000	$ 490,073	$ 4,060,757	$ 3,798,229

Fair value is estimated to be the present value of the expected future cash flows from the notes receivable calculated using a risk-free rate (including a premium). To cover the credit risk of the loans, expected cash flows included in the computation were reduced by 8% of the principal balance. The risk free rates used in the computation were based on the Treasury Inflation Protected Securities (TIPS) yield rates. A risk premium of 1.1% was added to the TIPS yield rates. The present value calculation resulted in a $74,927 and $262,528 discount for the NHS Deferred Loan Portfolio contributed in 2017 and 2016, respectively. The present value calculation for the NHS Amortizing Loan Portfolio approximates face value, therefore no discount or premium was recorded on the amortizing portfolio.

(6) Housing Trust purchased a portfolio of notes receivable from NHSSV in connection with its dissolution. The purchased portfolio is amortizing and consists of loans that have a face value between $10,000 to $65,000 and bear interest at 6%.

The notes were recorded at fair value on the purchase date.

	2017	
	Face Amount	*Unobservable Inputs (Level 3)*
NHS Purchased Amortizing Loans	$ 323,718	$ 76,586
	$ 323,718	$ 76,586

The purchase price of the portfolio was 30% of the face value of the performing loans, which amounted to $76,586. The purchase price approximates the fair value of the portfolio, resulting in a discount of $247,132.

Multi-Family Programs

Housing Trust provides loan capital to community-based, non-profit and for-profit mission-aligned affordable housing developers in order to increase and improve the availability of quality affordable housing in our region.

(7) Affordable Housing Developer Loans – Under Housing Trust's Affordable Multi-Family Housing Program qualified developers may borrow up to $500,000 for predevelopment and $10,000,000 for acquisition, construction, and rehabilitation. Housing Trust loan products include:

A. Short term loans provide early stage patient capital not offered by traditional lenders for predevelopment, acquisition, bridge or construction financing. Terms are up to 5 years with the average term of the Housing Trust's existing portfolio of just over two years. Housing Trust utilizes its grant monies from Santa Clara County (Supportive Housing Fund) to lend short term at significantly lower interest rates as start-up capital to developers who seek to acquire and develop or preserve permanent housing with supportive services for extremely low-income individuals and families and those with special needs, in particular the homeless.

B. Term loans provide permanent financing for stabilized multifamily properties. Terms are between five and twenty years.

C. Deferred term loans provide maturities for up to 55 years.

Neighborhood Stabilization Program 2 (NSP2)

(8) PAL – the program is funded under NSP2. PAL is designed to help homebuyers purchase foreclosed and abandoned homes and those at risk of foreclosure in the City of San Jose. The loans are secured by deeds of trust, have a maximum loan amount of $50,000 and bear simple interest of 0% to 3%. Payment of principal and accrued interest is deferred with entire balance due in full on the maturity date of the related first loan, or upon any sale, transfer, assignment or refinance of the first loan, whichever occurs first. The PAL program was discontinued as of June 30, 2013.

(9) Very Low Income (VLI) Multi-Family Housing funded under the NSP2 Program was provided to a project known as The Metropolitan located in San Jose. The project consists of 102 low-income multifamily units, constructed in two phases. Up to $5,000,000 of NSP2 funds was used in the first phase. The loan was repaid upon closing of permanent financing in 2017.

The following are the details of activities on the allowance for loan losses during the years ended June 30, 2017 and 2016:

	2017		
	Homebuyer / Contributed Notes / PAL Allowance	*Multi-Family / Loan Pool Allowance*	*Total Allowance*
Balance, beginning of year	$ 784,000	$ 420,000	$ 1,204,000
Provision for loan losses during the year	(197,500)	680,000	482,500
Recoveries	-	-	-
Write-off	(6,500)	-	(6,500)
Balance, end of year	$ 580,000	$ 1,100,000	$ 1,680,000

	2016		
	Homebuyer / Contributed Notes / PAL Allowance	*Multi-Family / Loan Pool Allowance*	*Total Allowance*
Balance, beginning of year	$ 750,000	$ 250,000	$ 1,000,000
Provision for loan losses during the year	59,000	170,000	229,000
Recoveries	-	-	-
Write-off	(25,000)	-	(25,000)
Balance, end of year	$ 784,000	$ 420,000	$ 1,204,000

Future maturities on Home Buyer, Contributed Notes and PAL notes receivable within the next five years cannot be reasonably estimated. Future principal repayments for the Affordable Housing loans are estimated as follows:

2018	$ 10,450,475
2019	15,961,741
2020	12,300,976
2021	158,489
2022	169,843

Housing Trust evaluates notes receivable based on the following credit quality indicators: collateral and lien position. These credit quality indicators are updated at least annually. Details about the notes receivable, as of June 30, 2017, follow:

				Status of interest accruals	
	Loan Balance	*Past Due ≥ 90 days*	*Allowance*	*Total financing receivable on nonaccrual status*	*Financing receivables past due and still accruing interest*
2nd liens and less	$ 41,614,922	$ 96,225	$ (1,063,838)	$ 29,868	$ 66,356
3rd liens	4,771,897	-	(101,905)	-	-
4th liens	6,115,840	-	(106,762)	-	-
5th liens and greater	7,031,556	-	(272,158)	-	-
Secured by UCC1	7,186,984	-	(52,639)	-	-
Unsecured	1,181,421	-	(82,699)	-	-
Less: discount on notes receivable	(529,642)	-	-	-	-
Total	$ 67,372,978	$ 96,225	$ (1,680,000)	$ 29,868	$ 66,356

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	2017	2016
Office equipment	$ 40,783	$ 39,257
Software	50,804	46,224
Furniture and fixtures	68,502	71,559
	160,089	157,040
Less: accumulated depreciation	(135,411)	(118,309)
Total property and equipment	$ 24,678	$ 38,731

NOTE 7 – NON-RECOURSE CAPITAL FROM THIRD PARTIES

Housing Trust also enters into Loan Pooling Agreements to finance Affordable Housing Loans with various Investor Banks and other third party investors whereby Housing Trust and investors have committed to provide funds to enable Housing Trust to originate affordable housing development loans to qualified developers of multi-family rental projects. Housing Trust issues a capital call to the investors at loan closing and they remit their established percentage of the total loan. Housing Trust's loan pools are as follows:

	2017	2016
Affordable Housing Growth Fund (AHGF) (1)	$ 3,258,141	$ 4,085,102
2015 Loan Fund – Tranche I (2)	2,970,582	2,230,769
2015 Loan Fund – Tranche II (2)	2,551,722	-
Monterey Bay Housing Trust (3)	1,700	-
Total	8,782,145	6,315,871
Less: current portion	(3,258,141)	(3,392,774)
Long-term portion	$ 5,524,004	$ 2,923,097

(1) AHGF – Housing Trust entered in a Funds Pooling Agreement on May 6, 2013, where the total loan pool commitment is $8,769,676, of which $6,769,676 is from Investor Banks and $2,000,000 from Housing Trust. The qualified developers may borrow up to a maximum loan amount of $2,000,000 for real estate secured loans or $500,000 for non-real estate secured loans. The maximum term of the loan is 5 years. Housing Trust is also required to maintain from its own funds a loan loss reserve equal to the greater of $250,000 or 5% of the combined contributed capital of the Housing Trust and the Investor Banks. Cash restricted for loan loss reserve was $250,000 in 2017 and 2016. On August 24, 2017 Housing Trust notified the Investor Banks in the AHGF pool of its intention to automatically extend the term of each commitment an additional five years as allowed by the Pooling Agreement. To date all Investor Banks have the intention to renew the commitment.

(2) 2015 Loan Fund – Housing Trust entered into a 2015 Affordable Housing Loan Pool agreement on September 30, 2015, where total loan pool commitment is $7,800,000, of which $5,800,000 is from Investor Banks and $2,000,000 from Housing Trust. Qualified developers may borrow up to a maximum loan amount of $2,000,000 for real estate secured loans or $500,000 for non-real estate secured loans. The maximum loan term is 5 years.

In March 2017, some of the original 2015 Loan Pool banks agreed along with one new bank to commit Tranche II of the 2015 loan pool totaling $6,300,000 from these banks and $8,300,000 in total including Housing Trust's commitment. The total loan pool (both tranches) including Housing Trust's commitment stands at $16,100,000.

(3) In June 2017, Housing Trust entered into the Monterey Bay Housing Trust Funds Pooling Agreement for Affordable Housing Loans, where the total loan pool commitment is $10,000,000 of which the Monterey Bay Economic Partnership, Inc. raised and will invest $2,000,000. Loans made from these funds will be short-term, and the developments financed will be in the region covered by the Monterey Bay Economic Partnership, Inc.

Housing Trust is responsible for monitoring and receiving monthly payments from the borrowers. Heritage Bank acts as Administrative Agent. Payments from borrowers are received by Heritage Bank and are disbursed proportionately by Housing Trust to the Investor Banks and other third party investors in arrears on a quarterly basis.

NOTE 8 – NOTES PAYABLE

Notes payable are unsecured unless otherwise noted and consist of the following:

	2017	2016
Term Loans		
Notes payable to religious organizations, bearing interest of 2.00%, with interest due quarterly, to be repaid in full from June to August 2020. Interest expense was $11,000 annually in 2017 and 2016.	$ 550,000	$ 550,000
Notes payable to financial institutions, bearing interest from 2.75% to 3.00%, with interest due monthly or quarterly, to be repaid in full from August 2017 to December 2025. Interest expense was $128,273 and $68,842 for 2017 and 2016, respectively.	5,600,000	2,600,000
Series A Community Impact 5 year note, bearing interest of 1.50%, paid semi-annually, to be repaid in full on 2022. (1)	5,000,000	-
Notes payable to foundations, bearing interest of 2.00%, with interest due quarterly, to be repaid in full from September 2018 to September 2026. Interest expense was $47,917 and $10,000 for 2017 and 2016, respectively.	3,000,000	500,000
Subordinated Notes Payable		
Notes payable to financial institutions, bearing interest from 0.00% to 2.50%, generally with interest due quarterly, to be repaid in full from August 2019 to May 2029. These subordinated notes are classified by lenders as Equity Equivalent Investments (EQ2). EQ2s are unique to the CDFI industry and were created as a mechanism for nonprofit CDFIs to acquire equity-like capital. Interest expense was $52,257 and $10,778 for 2017 and 2016, respectively.	7,750,000	5,000,000
Outstanding Revolving Line of Credit		
Charles Schwab Bank revolving line of credit with a maximum amount of $6,000,000, bearing interest of 3.00%. Interest expense was $12,971 and $-0- in 2017 and 2016, respectively.	775,000	-
Total	22,675,000	8,650,000
Less: current portion	(2,600,000)	(500,000)
Long-term portion	$ 20,075,000	$ 8,150,000

(1) In April 2017, Housing Trust offered for sale up to $50,000,000 Community Impact Notes to fund its multi-family lending program. The Notes, Series A, 5-year note bearing interest of 1.50%, paid semi-annually, and Series B, 10-year note bearing interest rate at 2.00%, paid semiannually, are unsecured. Housing Trust has and expects to continue to attract non-Community Reinvestment Act (CRA) motivated investors to invest via this vehicle. As of June 30, 2017, $5,000,000 Series A notes have been sold.

Scheduled principal payments on the notes payable for the next five years are estimated as follows:

2018	$ 2,600,000
2019	500,000
2020	2,200,000
2021	350,000
2022	8,725,000

NOTE 9 – RELATED-PARTY TRANSACTIONS

Housing Trust's volunteer members of the board of directors are active in oversight of fundraising events, activities and in making private contributions. Certain board members also serve as elected officials on jurisdictions which support the Housing Trust. Contributions from the board of directors, from companies with which board members are affiliated, or from jurisdictions represented on the board by an elected official (related parties) were $113,190 and $1,045,802 for the years ended June 30, 2017 and 2016, respectively. Total unconditional contributions receivable from related parties were approximately $250 and $50,000 as of June 30, 2017 and 2016, respectively.

NOTE 10 – GRANTS AWARDED

Grants payable and expenses are summarized as follows:

Payable to/ Description	*Payable at June 30, 2017*	*2017 Grant Expense*	*Payable at June 30, 2016*	*2016 Grant Expense*
City of San Jose – NSP2 [(1)]	$ 10,372	$ -	$ 10,372	$ 39,170
Bill Wilson Center – Youth Shelter Grant [(2)]	-	471,736	-	50,000
Other organizations – SNCI Program [(3)]	-	40,000	-	-
Other individuals – Finally Home Security Deposit Program [(4)]	-	297,540	-	313,838
SV@Home – spin-off [(5)]	-	584,260	-	-
Other homeowners – Rehabilitation Program – City of Morgan Hill and Wells Fargo [(6)]	-	-	-	131,173
Other [(7)]	-	126,000	-	120,000
Total	$ 10,372	$ 1,519,536	$ 10,372	$ 654,181

(1) As the lead entity in the San Jose Consortium under the NSP2 Program, Housing Trust is responsible to monitor the City's eligible activities and submit cost reimbursements for the City. The San Jose Consortium allocated $18,000,000 of the original award to the City to purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed in order to sell, rent or redevelop such homes and properties. During 2017 and 2016, proceeds from sale of rehabilitated homes receive from the City were $156,304 and $107,744, respectively. The amount is included in Government Contributions in the accompanying consolidated statements of activities.

(2) Housing Trust entered into a Memorandum of Understanding (MOU) with the County of Santa Clara for a $1,000,000 cost reimbursement "Shelter Funds" grant. Housing Trust will manage the application and award process to qualified nonprofit entities in Santa Clara County who would use such funds to acquire, renovate, construct or purchase equipment for shelters for runaway or homeless youth.

(3) In 2016, the County of Santa Clara awarded Housing Trust $750,000 for the Safety Net Capital Improvement (SNCI) Program for the rehabilitation of community facilities to increase shelter, transitional housing or drop-in services for the homeless.

(4) Housing Trust has established Finally Home Security Deposit program – the program is designed to provide one-time, security deposit assistance to individuals, families, seniors, and persons with disabilities who are in need of security deposit assistance to transition from homelessness into permanent housing.

(5) On January 1, 2017, SV@Home became an independent 501(c)(3) nonprofit organization and the net assets resulting from donations, grants and events, net of expenses were transferred to SV@Home on that date.

(6) The City of Morgan Hill and Wells Fargo housing rehabilitation funds are used to provide loans and grants to eligible homeowners for the purpose of rehabilitating owner-occupied residences.

(7) In 2017, Housing Trust donated $100,000 to the Measure A campaign. Housing Trust believes that Measure A is critical to increasing the supply of affordable housing. This Santa Clara County property tax measure, which was on the November 2016 ballot, was passed.

In 2016, a $100,000 donation to Sunnyvale Community Services was made in response to a fire that displaced low-income residents in Sunnyvale.

NOTE 11 – DEFERRED REVENUE

Deferred revenue consists of the following:

	2017	2016
CalHome [(1)]	$ 321,030	$ 560,650
City of Morgan Hill [(2)]	-	8,076
Santa Clara County – SNCI [(3)]	690,455	735,000
Santa Clara County – SHF [(4)]	8,546,891	2,952,692
Total deferred revenue	9,558,376	4,256,418
Less: current portion	(1,011,485)	(1,303,726)
Long-term portion	$ 8,546,891	$ 2,952,692

(1) Housing Trust was the recipient of funds from the California Department of Housing and Community Development (HCD) under its CalHome Program to assist Housing Trust in the operation of its GAP assistance program.

(2) In 2015, Housing Trust received $300,000 from the City of Morgan Hill to provide loans and grants to eligible homeowners to rehabilitate owner-occupied residences located within the City of Morgan Hill. Some of the funds were returned as they were restricted for providing loans for rehab for which there was little interest. The remaining funds were used as intended.

(3) Housing Trust received $750,000 in 2016 from the County of Santa Clara for the Safety Net Capital Improvement (SNCI) Program for the rehabilitation of community facilities to increase shelter, transitional housing or drop-in services for the homeless.

(4) The County of Santa Clara (the County) and Housing Trust entered into a Memorandum of Agreement (MOU) whereby the County contributed $5,000,000 in lending capital into a revolving Supportive Housing Fund (SHF) to make predevelopment loans for the creation and preservation of permanent housing with supportive services for extremely low-income individuals and families and those with special needs. Housing Trust shall contribute matching funds with its own resources, which will not include any funds from the local government. Uncommitted funds will be returned to the County upon termination, expiration or cancellation of the MOU. Any loan repayments received will be utilized by Housing Trust for SHF use. Moreover, if Housing Trust stops using the repayments for the intent and purpose of the SHF, principal repayments will be returned to the County and any interest will be retained by Housing Trust. The MOU expires on June 30, 2019 but may be terminated at any time by either party.

In May 2017, the parties revised the MOU to include an additional grant of $11,900,000 and to stipulate that the lending guidelines Housing Trust must follow are those outlined in Measure A. Housing Trust may, but is not required to, match the second grant of funds with its own sources of funds. The expiration was extended to June 30, 2027. Revenue from these grants is recognized as funds are lent for the first time. The balance in deferred revenue represents uncommitted funds as of June 30, 2017 and 2016, respectively.

NOTE 12 – TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets are for the following purposes or periods:

	2017			
	June 30, 2016	*Contributions*	*Releases from Restrictions*	*June 30, 2017*
General Lending Programs	$ 4,830,192	$ 154,500	$ (1,136,654)	$ 3,848,038
Homebuyer Programs	9,284,110	995,693	(114,908)	10,164,895
Very Low Income Multi-Family Housing – NSP2	5,000,000	-	-	5,000,000
Affordable Multi-Family Rental Program and Homeless/Special Needs Program	6,201,175	6,305,800	(547,775)	11,959,200
Finally Home Program	-	305,500	(297,969)	7,531
Advocacy and Policy	320,000	154,435	(474,435)	-
Rehabilitation Program	6,531	-	(6,531)	-
	$ 25,642,008	$ 7,915,928	$ (2,578,272)	$ 30,979,664

	2016			
	June 30, 2015	*Contributions*	*Releases from Restrictions*	*June 30, 2016*
General Lending Programs	$ 5,166,068	$ 229,100	$ (564,976)	$ 4,830,192
Homebuyer Programs	3,229,785	6,270,268	(215,943)	9,284,110
Very Low Income Multi-Family Housing – NSP2	2,768,812	2,231,188	-	5,000,000
Affordable Multi-Family Rental Program and Homeless/Special Needs Program	2,745,634	3,652,308	(196,767)	6,201,175
Finally Home Program	-	287,000	(287,000)	-
Advocacy and Policy	342,156	395,000	(417,156)	320,000
Rehabilitation Program	67,000	-	(60,469)	6,531
	$ 14,319,455	$ 13,064,864	$ (1,742,311)	$ 25,642,008

Contributions received from government entities are released from restrictions once the funds are disbursed to qualified borrowers within the cities specified by the donors, granted as contributions to qualified organizations or used as program expense based on maximum amounts allowed by the donors. To the extent that agreements have secondary-use restrictions requiring Housing Trust to re-use the funds for another purpose, then restrictions are released when the secondary-use restrictions are fulfilled either through grants made to qualified organizations or use of funds for program expenses based on maximum amounts allowed by the donors. Temporarily restricted net assets include a total of $21,237,347 and $18,721,727 of disbursed funds with secondary-use restrictions as of June 30, 2017 and 2016, respectively.

NOTE 13 – PENSION PLAN

Housing Trust has established a defined contribution plan (the Plan) for all eligible employees. There is no length of service requirement, therefore employees may participate in the Plan upon joining the company. Contributions to employee accounts are immediately fully vested. Housing Trust contributes 3% of eligible employees' compensation and up to an additional 2% of matching funds for those employees who contribute to the plan. Housing Trust contributed $68,923 and $63,761 to the Plan during 2017 and 2016, respectively.

NOTE 14 – OFFICE LEASE

Housing Trust leases office space in San Jose under a non-cancellable operating lease expiring January 2018. Rent expense for the years ended June 30, 2017 and 2016 was $130,284 and $111,996, respectively. The following represents the future minimum lease payments:

Year Ending June 30,	
2018	$ 59,221

NOTE 15 – COMMITMENTS AND CONTINGENCIES

Housing Trust had undisbursed loan commitments totaling $13,509,664 as of June 30, 2017 relating to its Affordable Multi-Family Rental Program and Homeless/Special Needs Program.

In 2015, Housing Trust entered into a $5,000,000 revolving line of credit agreement (credit line) with MUFG Union Bank, N.A. The credit line requires monthly interest only payments equal to the Reference Rate, as announced periodically by MUFG Union Bank, N.A., less 0.25%, and was renewed and amended to a reduced amount of $4,000,000 and an extended maturity date of July 1, 2018. The credit line also requires that for at least 30 consecutive days during each 12 month period during the term of the agreement, the outstanding advances of the credit line shall not exceed $2,500,000. Certain financial covenants are also required to be maintained. In addition, the Security Agreement was cancelled and the line became unsecured. There was no outstanding balance under this line of credit at June 30, 2017.

NOTE 16 – SUBSEQUENT EVENTS

As part of its pledge to match capital raised via the T.E.C.H. Fund campaign, Cisco Foundation on July 31, 2017 refinanced its two existing loans to Housing Trust and provided an additional amount of $7,500,000 of unsecured loan to bring the total new loan to $10,500,000. The additional $7,500,000 can be drawn in two tranches of at least $1 million each through April 30, 2018. Principal is due on July 31, 2027.

Sobrato Family Foundation advanced an unsecured loan in the amount of $5,000,000 as part of the T.E.C.H. Fund campaign on July 31, 2017. The note bears 2% simple interest and requires quarterly interest payments. Principal is due on July 31, 2027.

On September 25, 2017 Housing Trust entered into a $25,000,000 bond loan agreement and other related documents with Opportunity Finance Network, a qualified issuer, as part of the Bond Guarantee Program of the CDFI Fund. This loan agreement which has an advance period of five years provides up to 29.5 year maturities at a spread over U.S. Treasuries. Under these agreements Housing Trust is required as it draws on the funds to pledge eligible collateral to the lender and to fund a 3% of the bond loan amount in a risk share pool. Housing Trust intends to use the funds to finance term loans to its multifamily borrowers.

SUPPLEMENTARY INFORMATION

LINDQUIST
VON HUSEN
& JOYCE LLP

JAMES M. KRAFT
S. SCOTT SEAMANDS
MARK O. BRITTAIN
ALEXIS H. WONG
CHARLOTTE SIEW-KUN TAY
CATHY L. HWANG
RITA B. DELA CRUZ
STANLEY WOO

SCOTT K. SMITH
CRISANTO S. FRANCISCO

Board of Directors
Housing Trust Silicon Valley
San Jose, California

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Housing Trust Silicon Valley, which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 12, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Housing Trust Silicon Valley's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Housing Trust Silicon Valley's internal control. Accordingly, we do not express an opinion on the effectiveness of Housing Trust Silicon Valley's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

BKR INTERNATIONAL
CERTIFIED PUBLIC ACCOUNTANTS, 90 New Montgomery, 11th Floor, San Francisco, California 94105
Telephone 415 957 9999 Facsimile 415 957 1629 Email mail@lvhj.com http://www.lvhj.com
AN INDEPENDENT MEMBER FIRM OF BKR INTERNATIONAL WITH ASSOCIATES IN PRINCIPAL CITIES WORLDWIDE

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Housing Trust Silicon Valley's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Housing Trust Silicon Valley's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Housing Trust Silicon Valley's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lindquist, von Husen and Joyce LLP

October 12, 2017

LINDQUIST
VON HUSEN
& JOYCE LLP

JAMES M. KRAFT
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Board of Directors
Housing Trust Silicon Valley
San Jose, California

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Report on Compliance for Each Major Federal Program

We have audited Housing Trust Silicon Valley's compliance, with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Housing Trust Silicon Valley's major federal programs for the year ended June 30, 2017. Housing Trust Silicon Valley's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its major federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Housing Trust Silicon Valley's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Housing Trust Silicon Valley's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Housing Trust Silicon Valley's compliance.

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Opinion on Each Major Federal Program

In our opinion, Housing Trust Silicon Valley complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of Housing Trust Silicon Valley is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Housing Trust Silicon Valley's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Housing Trust Silicon Valley's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Lindquist, von Husen and Joyce LLP

October 12, 2017

HOUSING TRUST SILICON VALLEY

(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2017

Federal Grantor/Pass-Through Grantor/Title	*Federal CFDA Number*	*Agency or Pass-Through Number*	*Federal Expenditures*	*Expenditures to Subrecipients*
U.S. Department of Housing and Urban Development:				
Neighborhood Stabilization Program 2 (NSP2):				
Loans made in prior years for which continuing compliance is required	14.256	N/A	$ 7,183,450	$ -
Direct awards	14.256	N/A	246,888	-
Total NSP2			7,430,338	-
Home Investment Partnerships Program:				
Pass-through awards from the City of Santa Clara	14.239		20,080	-
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			7,450,418	-
U.S. Department of Treasury:				
CDFI Cluster:				
Community Development Financial Institutions Program:				
Loans made in prior years for which continuing compliance is required	21.020		1,318,371	-
Direct awards	21.020		926,578	-
Total Community Development Financial Institutions Program			2,244,949	-
Total CDFI Cluster			2,244,949	-
TOTAL U.S. DEPARTMENT OF TREASURY			2,244,949	-
TOTAL FEDERAL AWARDS			$ 9,695,367	$ -

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant and loan activities of Housing Trust Silicon Valley and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The purpose of the Schedule is to present a summary of those activities of Housing Trust Silicon Valley for the year ended June 30, 2017, which have been financed by the U.S. Government. For purposes of the Schedule, federal awards include all federal assistance entered into directly and indirectly between Housing Trust Silicon Valley and the federal government. Housing Trust Silicon Valley did not elect to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 2 – PRIOR YEARS' EXPENDITURES

The accompanying schedule of expenditures of federal awards includes \$8,501,821 in expenditures from prior year for which continuing compliance is required.

NOTE 3 – YEAR-END LOAN BALANCES

The loan balances outstanding at year-end are summarized as follows:

Neighborhood Stabilization Program 2 – Purchase Assistance Loan	$ 1,511,878
Community Development Financial Institutions Program	2,169,950
Total	$ 3,681,828

HOUSING TRUST SILICON VALLEY

(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2017

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	____ Yes	X No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	____ Yes	X None reported
Noncompliance material to financial statements noted?	____ Yes	X No

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	____ Yes	X No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	____ Yes	X None reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Section 200.516 of the Uniform Guidance?	____ Yes	X No
Identification of major programs:	*Name of Federal Program or Cluster*	
CFDA #21.020	CDFI Cluster	
Dollar threshold used to distinguish between Type A and Type B programs:	$750,000	
Auditee qualified as low-risk auditee?	X Yes	____ No

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

None noted.