Housing Trust Silicon Valley

Consolidated Financial Report
June 30, 2018

Contents

RSM US LLP

Independent Auditor's Report

Board of Directors
Housing Trust Silicon Valley

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 statement of financial position as of June 30, 2018, 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 (collectively, 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 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon 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 financial statements referred to above present fairly, in all material respects, the financial position of Housing Trust Silicon Valley as of June 30, 2018, and the changes in their net assets and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2018, on our consideration of the 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Housing Trust Silicon Valley's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Housing Trust Silicon Valley's internal control over financial reporting and compliance.

Other Matter
The financial statements of Housing Trust Silicon Valley, as of and for the year ended June 30, 2017, were audited by other auditors, whose report, dated October 12, 2017, expressed an unmodified opinion on those statements.

RSM US LLP

San Jose, California
October 16, 2018

Housing Trust Silicon Valley
(A California Nonprofit Public Benefit Corporation)

Consolidated Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	$ 37,151,198	$ 23,947,032
Restricted cash (Note 2)	-	768,939
Restricted investments (Note 2)	2,491,630	1,098,999
Investments (Note 3)	5,678,869	7,238,726
Receivables, net (Note 4)	354,561	309,557
Prepaid expenses	75,880	32,801
Notes receivable, net (Note 5)	22,064,329	10,450,475
Total current assets	67,816,467	43,846,529
Notes receivable, net of current portion (Note 5)	50,605,259	55,242,503
Receivables, net of current portion (Note 4)	177,710	-
Deferred interest receivable	1,086,665	1,029,689
Furniture and equipment, net (Note 6)	227,425	24,678
Other assets	134,101	30,450
Total assets	$ 120,047,627	$ 100,173,849
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 123,216	$ 224,325
Accrued expenses	292,741	187,696
Grants payable (Note 10)	-	10,372
Conditional contributions - current portion (Note 11)	3,977,332	1,011,485
Nonrecourse capital from third parties - current portion (Note 7)	3,182,869	3,258,141
Notes payable - current portion (Note 8)	-	2,600,000
Total current liabilities	7,576,158	7,292,019
Conditional contributions, net of current portion (Note 11)	-	8,546,891
Nonrecourse capital from third parties, net of current portion (Note 7)	1,129,521	5,524,004
Notes payable, net of current portion (Note 8)	44,375,476	20,075,000
Total liabilities	53,081,155	41,437,914
Commitments and contingencies (Notes 14 and 15)		
Net assets:		
Unrestricted	29,963,305	27,756,271
Temporarily restricted (Note 12)	37,003,167	30,979,664
Total net assets	66,966,472	58,735,935
Total liabilities and net assets	$ 120,047,627	$ 100,173,849

See notes to consolidated financial statements.

Housing Trust Silicon Valley
(A California Nonprofit Public Benefit Corporation)

Consolidated Statement of Activities
Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Government grants and contributions	$ 167,750	$ 7,426,738	$ 7,594,488
Other contributions	222,992	1,354,006	1,576,998
Revenue from special events, net of direct costs	258,041	-	258,041
Interest income	2,018,165	154,012	2,172,177
Program service fees	1,173,189	-	1,173,189
Investment return, net of fees (Note 3)	609,074	-	609,074
In-kind contribution	45,083	-	45,083
Net assets released from restrictions (Note 12)	2,911,253	(2,911,253)	-
Total support and revenue	7,405,547	6,023,503	13,429,050
Expenses:			
Program services	4,058,778	-	4,058,778
Management and general	865,200	-	865,200
Fundraising	274,535	-	274,535
Total expenses	5,198,513	-	5,198,513
Change in net assets	2,207,034	6,023,503	8,230,537
Net assets, beginning of year	27,756,271	30,979,664	58,735,935
Net assets, end of year	$ 29,963,305	$ 37,003,167	$ 66,966,472

See notes to consolidated financial statements.

Housing Trust Silicon Valley
(A California Nonprofit Public Benefit Corporation)

Consolidated Statement of Activities
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Government grants and contributions	$ 30,977	$ 6,698,458	$ 6,729,435
Other contributions	388,771	1,018,824	1,407,595
Revenue from special events, net of direct costs	238,033	-	238,033
Interest income	861,762	198,646	1,060,408
Program service fees	1,171,193	-	1,171,193
Investment return, net of fees (Note 3)	432,961	-	432,961
In-kind contribution	236,503	-	236,503
Net assets released from restrictions (Note 12)	2,578,272	(2,578,272)	-
Total support and revenue	5,938,472	5,337,656	11,276,128
Expenses:			
Program services	4,211,760	-	4,211,760
Management and general	680,204	-	680,204
Fundraising	263,801	-	263,801
Total expenses	5,155,765	-	5,155,765
Change in net assets	782,707	5,337,656	6,120,363
Net assets, beginning of year	26,973,564	25,642,008	52,615,572
Net assets, end of year	$ 27,756,271	$ 30,979,664	$ 58,735,935

See notes to consolidated financial statements.

Housing Trust Silicon Valley
(A California Nonprofit Public Benefit Corporation)

Consolidated Statement of Functional Expenses
Year Ended June 30, 2018

	Program Services							Supporting Services			
	Homebuyer Programs	Multi-family Programs	Safety Net and Homeless Prevention	Asset Management	ADU Program	Policy and Education	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries and benefits	$ 228,034	$ 586,704	$ 138,424	$ 351,821	$ 104,467	$ 78,458	$ 1,487,908	$ 564,668	$ 196,159	$ 760,827	$ 2,248,735
Occupancy and office expense	20,112	47,318	11,807	29,186	8,853	6,774	124,050	60,412	16,641	77,053	201,103
Accounting, legal and professional fees	13,090	45,532	9,562	13,424	7,470	1,933	91,011	117,138	6,670	123,808	214,819
Marketing and communication	1,167	3,091	131	1,794	99	76	6,358	1,540	41,576	43,116	49,474
Donations/sponsorships	-	105,300	-	-	-	-	105,300	41,200	-	41,200	146,500
Interest expense	-	638,613	-	-	-	-	638,613	-	-	-	638,613
Other operating expenses	19,842	34,386	4,189	18,582	4,961	1,994	83,954	71,913	10,589	82,502	166,456
Grants awarded (Note 10)	64,526	240,000	495,497	-	-	-	800,023	-	-	-	800,023
Total operating expenses before provision for loan losses and depreciation	346,771	1,700,944	659,610	414,807	125,850	89,235	3,337,217	856,871	271,635	1,128,506	4,465,723
Provision for loan losses	-	700,000	-	-	-	-	700,000	-	-	-	700,000
Depreciation and amortization	3,396	8,191	2,075	5,142	1,562	1,195	21,561	8,329	2,900	11,229	32,790
Total expenses	$ 350,167	$ 2,409,135	$ 661,685	$ 419,949	$ 127,412	$ 90,430	$ 4,058,778	$ 865,200	$ 274,535	$ 1,139,735	$ 5,198,513

See notes to consolidated financial statements.

Housing Trust Silicon Valley
(A California Nonprofit Public Benefit Corporation)

Consolidated Statement of Functional Expenses
Year Ended June 30, 2017

	Program Services							Supporting Services			
	Homebuyer Programs	Multi-family Programs	Safety Net and Homeless Prevention	Asset Management	SV@Home	Policy and Education	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries and benefits	$ 188,957	$ 541,413	$ 69,775	$ 222,899	$ 287,306	$ 72,256	$ 1,382,606	$ 511,083	$ 178,850	$ 689,933	$ 2,072,539
Occupancy and office expense	10,438	29,908	3,855	12,313	31,667	3,990	92,171	28,233	9,880	38,113	130,284
Accounting, legal and professional fees	21,953	212,852	11,335	15,069	52,906	24,206	338,321	54,494	10,473	64,967	403,288
Marketing and communication	618	1,038	69	1,062	1,803	71	4,661	1,192	49,428	50,620	55,281
Donations/sponsorships	-	6,100	-	-	100		6,200	7,000	500	7,500	13,700
Interest expense	-	260,415	-	-	-	-	260,415	-	-	-	260,415
Other operating expenses	19,682	35,601	1,848	9,367	44,141	1,688	112,327	73,388	12,985	86,373	198,700
Grants awarded (Note 10)	-	100,000	835,276	-	584,260	-	1,519,536	-	-	-	1,519,536
Total operating expenses before provision for loan losses and depreciation	241,648	1,187,327	922,158	260,710	1,002,183	102,211	3,716,237	675,390	262,116	937,506	4,653,743
Provision for loan losses	(197,500)	680,000	-	-	-	-	482,500	-	-	-	482,500
Depreciation and amortization	1,780	5,100	657	2,100	2,706	680	13,023	4,814	1,685	6,499	19,522
Total expenses	$ 45,928	$ 1,872,427	$ 922,815	$ 262,810	$ 1,004,889	$ 102,891	$ 4,211,760	$ 680,204	$ 263,801	$ 944,005	$ 5,155,765

See notes to consolidated financial statements.

Housing Trust Silicon Valley
(A California Nonprofit Public Benefit Corporation)

Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 8,230,537	$ 6,120,363
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized and realized gain on investments	(242,050)	(205,206)
Provision for loan losses	700,000	482,500
Amortization of discount on notes receivable	(106,487)	(76,258)
Contributed notes receivable, net	-	(490,073)
Loan forgiven as noncash grant	240,000	-
Earned interest on non-recourse capital	(142,979)	(125,522)
Deferred interest receivable	(56,975)	(67,194)
Depreciation and amortization	32,790	19,522
Net change in:		
Receivables	(222,714)	771,129
Prepaid expenses	(43,082)	7,399
Other assets	(129,987)	(1,950)
Accounts payable	(99,506)	95,695
Accrued expenses	103,442	27,348
Grants payable	(10,372)	-
Conditional contributions	(5,581,044)	5,301,958
Net cash provided by operating activities	2,671,573	11,859,711
Cash flows from investing activities:		
Proceeds from sales of investments	2,600,000	2,999,874
Purchases of investments	(2,190,724)	-
Notes receivable disbursed	(36,189,210)	(32,190,818)
Collection of notes receivable	28,523,879	14,242,580
Purchases of furniture and equipment	(235,536)	(5,469)
Net cash used in investing activities	(7,491,591)	(14,953,833)
Cash flows from financing activities:		
Nonrecourse capital from third parties received	1,722,328	6,118,398
Nonrecourse capital from third parties returned	(6,192,083)	(3,652,124)
Payment of notes payable	(10,875,000)	(4,400,000)
Proceeds from notes payable	32,600,000	18,425,000
Net cash provided by financing activities	17,255,245	16,491,274
Net increase in cash and cash equivalents	12,435,227	13,397,152
Cash and cash equivalents, beginning of year	24,715,971	11,318,819
Cash and cash equivalents, end of year	$ 37,151,198	$ 24,715,971
Supplementary information:		
Cash and cash equivalents paid for interest	$ 598,613	$ 245,361

See notes to consolidated financial statements.

Note 1. Organization and Nature of Activities

Housing Trust Silicon Valley (Housing Trust) was incorporated on May 22, 2000, as a nonprofit public benefit corporation. Housing Trust's mission is to make the greater San Francisco Bay Area a more affordable place to live. Housing Trust is leading the effort to create a strong affordable housing market in the greater Bay Area. From the homeless to renters to first-time homebuyers, we assist a wide range of residents with programs across the entire spectrum of housing issues. Our financial expertise and extensive private and public sector partnerships ensure we make the most out of every dollar to preserve thriving and diverse communities.

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 down payment assistance programs 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 Programs - These programs are designed to help create and preserve affordable multi-family rental housing units in communities throughout the 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' below-market rate housing programs. Housing Trust partners with the cities and their developers to help market, outreach and qualify buyers for below-market price condominiums and townhomes. In addition, Housing Trust advises, performs special projects and administers loan programs for cities and counties.

- Neighborhood Stabilization Program 2 (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 (HSSV). These NSP2 funds are being used in targeted areas across 35 census tracts that have been the hardest hit by foreclosures within the City. Housing Trust has invested all of the funds and is in the process of closing out the grant. Housing Trust has received loan repayments which are available for lending subject to program restrictions and are included in temporarily restricted net assets.

Note 1. Organization and Nature of Activities (Continued)

- 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).

- Accessory Dwelling Unit (ADU) Program - Small Homes, Big Impact is a new ADU pilot program from Housing Trust offering free educational workshops and financial assistance to homeowners seeking to build a secondary unit or granny flat in their backyard. The financial assistance program is currently being developed. It will consist of a planning grant and a construction loan. The program is planned to begin in fall of 2018.

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 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 2017.

Cash and cash equivalents and investments available for operations: At June 30, 2018, Housing Trust had the following cash and cash equivalents and investments available for operations:

Cash and cash equivalents and investments:	
Cash and cash equivalents	$ 37,151,198
Restricted investments	2,491,630
Investments	5,678,869
Total	45,321,697
Less amount not available to be used for operations:	
Cash and cash equivalents to support program net asset restrictions	30,914,395
Cash and cash equivalents with time usage restrictions	366,666
Restricted investments	2,491,630
Cash designated for loan loss reserve	250,000
Total cash and cash equivalents and investments not available for operations	34,022,691
Cash and cash equivalents and investments available for operations	$ 11,299,006

Note 2. Summary of Significant Accounting Policies

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

Basis of presentation: Housing Trust's consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) on the basis of unrestricted, temporarily restricted, and permanently restricted net assets and under the accrual basis of accounting.

Unrestricted net assets: Unrestricted net assets are not subject to donor-imposed restrictions and include the carrying value of all physical properties (leasehold improvements and furniture and equipment). Items that affect (i.e., increase or decrease) this net asset category include: revenue (principally interest and loan fees) and related expenses associated with the core activities of Housing Trust.

Temporarily restricted net assets: Temporarily restricted net assets represent contributions and other assets received from donors that are limited in use by Housing Trust in accordance with temporary donor-imposed stipulations. Items that affect this net asset category are restricted contributions, including unconditional pledges, and earnings on notes receivable that were funded by contributions with restricted purposes. These stipulations may expire with time or may be satisfied and removed by the actions of Housing Trust according to the terms of the contribution. Upon satisfaction of such stipulations, net assets are released from temporarily restricted net assets and recognized as unrestricted net assets.

Permanently restricted net assets: Permanently restricted net assets represent unconditional promises to give by a donor that specifies that the assets donated be maintained permanently, and be invested to provide a permanent source of income. Housing Trust has no permanently restricted net assets.

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of credit risk: Housing Trust may be exposed to credit risk from a regional economic standpoint, since a significant concentration of its borrowers operate in the San Francisco Bay Area. The borrowers' ability to repay notes receivable may be affected by the economic climate of the overall geographic region in which the borrowers operate.

Housing Trust's 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 to make more loans diversified. Housing Trust continues to be dependent on corporate and individual contributions; however, its self-sufficiency ratio has improved to 92 percent in fiscal year 2018 such that it is less dependent upon such contributions to support operations than in prior years. Operational self-sufficiency is a sustainability metric measuring the extent to which a CDFI is covering its expenses through earned income and equates to program fees plus interest income plus investment earnings divided by program expenses.

Note 2. Summary of Significant Accounting Policies (Continued)

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 with original maturities of three months or less. Housing Trust occasionally maintains cash on deposit at various banks in excess of the Federal Deposit Insurance Corporation limit. Housing Trust has not experienced any losses in such accounts.

Restricted cash and investments: As of June 30, 2018 and 2017, restricted cash and investments is held for amounts related to the ongoing CalHome program.

Receivables: Receivables include contribution and other earning income receivables. Housing Trust evaluates the collectibility of its receivables on an ongoing basis and records a provision for potential uncollectible receivables when appropriate. At June 30, 2018 and 2017, Housing Trust has recorded an allowance for doubtful accounts of $2,000 and $0, respectively.

Contributions: 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 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 on the consolidated statements of activities as net assets released from restrictions.

Contributions receivable to be received within one year are presented at their net realizable value. 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 are not included as support until the conditions are substantially met. Conditional contributions received with lending purposes restrictions are recognized as revenue when the money is lent as Housing Trust is required to repay any monies not lent (see Note 11).

Contributed services are stated at their estimated fair value, if they are ordinarily purchased and are of a specialized nature. Contributed services were approximately $45,000 and $237,000 for fiscal years ended June 30, 2018 and 2017, respectively, and related to accounting, legal and professional fees.

Investments and fair value measurements: Investments are stated at fair value and are recorded on the trade or contract date. The difference between cost and fair value of investments is reflected as unrealized appreciation (depreciation) on investments, and any change in that amount from the prior year is reported as a component of investment return in the consolidated statements of activities.

Note 2. Summary of Significant Accounting Policies (Continued)

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset or liability and a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to Housing Trust's assumptions (unobservable inputs). Housing Trust group's assets and liabilities at fair value in three levels based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

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 are derived from other valuation methodologies and incorporate certain assumptions and projections that are not observable in the market and significant professional judgment in determining the fair value assigned to such assets or liabilities.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Included within the investment portfolio are certificates of deposit, representing deposits with original maturities greater than three months. Certificates of deposit are highly liquid investments and are not subject to withdrawal limitations. The certificates are stated at the amount initially invested plus accrued interest.

The fair value of mutual funds is based on quoted market prices. Investments in equity instruments traded on national securities exchanges are stated at the last reported sales price on the day of valuation. These financial instruments are classified as Level 1 in the fair value hierarchy.

Investments in fixed income and equity instruments for which quotations are not readily available are valued using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. To the extent the inputs used in the pricing models are observable and timely, these financial instruments are classified as Level 2 in the fair value hierarchy; otherwise, they would be categorized as Level 3.

Note 2. Summary of Significant Accounting Policies (Continued)

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: 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 plus a premium applicable to the years in which the contributed notes receivable are received. Amortization of discounts, if any, is included in contribution revenue. Direct origination fees, if significant, would be deferred and amortized using the effective interest method over the respective lives of the related loans and recorded as an adjustment to loan fee revenue. At June 30, 2018 and 2017, direct origination fees were not deemed significant. Management has the intent and ability to hold these notes in the foreseeable future or until maturity or payoff.

Interest income is accrued on the unpaid principal balance at the notes' stated rate. Notes are considered to be past due when a payment has been missed. The accrual of interest on notes is typically discontinued at the time the note is more than 90 days delinquent. Notes are placed on nonaccrual status or charged off at an earlier date if collection of principal and interest is considered doubtful. Notes are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for loan losses: The allowance for loan losses is an estimate of notes receivable losses inherent in Housing Trust's notes receivable portfolio as of the date of the statement of financial position. The 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 evaluated on a regular basis by management and is based upon management's periodic view of the collectibility of the notes receivable in light of historical experience, the nature and volume of the notes receivable portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of the underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

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. A loan is considered impaired when, based on current information and events, it is probable that Housing Trust will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Specific allowances for loan losses are established for impaired loans and troubled debt restructured (TDR) loans on an individual basis as required. When a loan is impaired, Housing Trust may measure impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. A loan is collateral dependent if the repayment is expected to be provided solely by the underlying collateral.

Note 2. Summary of Significant Accounting Policies (Continued)

Housing Trust determines a separate allowance for each portfolio segment. These portfolio segments include homebuyer programs and multi-family programs. The allowance for loan losses attributed to each portfolio segment is combined to determine Housing Trust's overall allowance, which is included on the consolidated statements of financial position and available for all loss exposures.

The determination of the general reserve for loans that are not considered to be individually impaired is based on estimates made by management, to include, but not limited to, consideration of historical losses by portfolio segment, internal asset classifications, and qualitative factors to include economic trends in Housing Trust's service areas, industry trends, geographic concentrations, estimated collateral values, Housing Trust's underwriting policies, the character of the loan portfolio, and probable losses inherent in the portfolio taken as a whole.

Loans whose contractual terms have been modified into a TDR and are current at the time of restructuring remain on accrual status if there is demonstrated performance prior to the restructuring and payment in full under the restructured terms is expected. A restructuring of a debt constitutes a TDR if Housing Trust, for economic, legal, or other reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. These concessions may include rate reductions, principal forgiveness, extension of maturity date and other actions intended to minimize potential losses. TDR loans typically present an elevated level of credit risk because the borrowers may not be able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above.

Housing Trust assigns a risk rating to all multi-family loans and periodically reviews the loans in this portfolio to identify credit risks and to assess the overall collectibility of that segment of the portfolio. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings for loans in this portfolio segment can be grouped into five major categories, defined as follows:

Pass - A pass loan is performing consistent with or better than projections, and with no existing or known potential weaknesses deserving of management's close attention.

Watch - A watch loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the loans or in Housing Trust's position at some future date. Watch loans are not adversely classified and do not expose Housing Trust to sufficient risk to warrant adverse classification.

Impaired - An impaired loan is not adequately protected by the current financial position and paying capacity of the borrower or the value of the collateral pledged, if any. Loans classified as impaired have a well-defined weakness or weaknesses, and the likelihood of repayment from the primary source is uncertain. Well-defined weaknesses include inadequate cash flow or collateral support, a project's lack of marketability, failure to complete the project on time or the project's failure to fulfill economic expectations. They are characterized by the distinct possibility that Housing Trust will sustain some loss if the deficiencies are not corrected.

Doubtful - Loans classified as doubtful have all the weaknesses inherent in those classified as impaired with the added characteristic that the weaknesses are serious enough to make full collection of principal and interest highly questionable and/or improbable.

Loss - Loans classified as loss are considered uncollectible or of such little value that continuance as an earning asset is not warranted and is charged off.

Note 2. Summary of Significant Accounting Policies (Continued)

The allowance for loan losses reserve factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment described below:

Homebuyer programs - This portfolio segment consists of wholly owned loans that are primarily secured by deeds of trust. Changes in real property values and the employment status of the borrower are key risk factors that may impact the collectibility of these loans, along with the condition of collateral if foreclosed.

Multi-family programs - This portfolio segment consists primarily of wholly owned loans that are primarily secured by deeds of trust. Changes in real property values and the prospects of completion of the project and therefore the take-out financing are key risk factors that may impact the collectibility of these loans, along with the condition of collateral if foreclosed.

Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. On a routine basis the adequacy of the allowance, including consideration of the relative risks of the portfolio, current economic conditions, and other factors are reviewed. If management determines that charges are warranted based on those reviews, the allowance is adjusted.

Transfers of financial assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from Housing Trust, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) Housing Trust does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Fair value of financial instruments: In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-01, Financial *Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for Housing Trust for fiscal year ending June 30, 2020. Housing Trust has elected to early adopt the amendment effective July 1, 2017 that no longer requires disclosure of the fair value of financial instruments that are not measured at fair value and as such, these disclosures are not included herein. Housing Trust is currently evaluating the impact of adoption of the remainder of this standard on its consolidated financial statements.

Furniture and equipment: Furniture 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 three to five years. The cost of leasehold improvements is amortized using the straight-line method over the shorter of the terms of the related leases or the useful lives of the related assets.

Note 2. Summary of Significant Accounting Policies (Continued)

Income taxes: Housing Trust is exempt from federal income taxes under section 50l(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 2014 through 2017 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 on 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 16, 2018, the date on which the consolidated financial statements were available to be issued.

Reclassification: Certain amounts previously reported in the 2017 financial statements were reclassified to conform to the 2018 presentation for comparative purposes with no impact to previously reported net assets and change in net assets.

Recent accounting pronouncements: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2017. Housing Trust has not yet selected a transition method and is currently evaluating the effect that the standard will have on its consolidated financial statements, but the adoption is not expected to have a material effect.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Housing Trust is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

Note 2. Summary of Significant Accounting Policies (Continued)

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of activities as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2020. Housing Trust is currently evaluating the impact of adopting this new guidance on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions”, and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017 with early adoption permitted. Housing Trust is currently evaluating the impact the adoption of this guidance will have on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for Housing Trust beginning on July 1, 2018. ASU 2016-18 must be applied using a retrospective transition method with early adoption permitted. Housing Trust is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

Note 3. Investments

Investments are summarized as follows at June 30:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Domestic fixed income	$ 2,748,884	$ 2,883,867	$ 2,166,943	$ 2,248,083
Domestic equity	1,134,107	1,394,860	1,442,769	1,552,978
Certificates of deposit	2,994,020	2,995,474	4,037,030	4,022,542
International equity mutual funds	723,752	819,102	330,249	383,902
International fixed income	78,205	77,196	129,488	130,220
	$ 7,678,968	$ 8,170,499	$ 8,106,479	$ 8,337,725

Note 3. Investments (Continued)

A summary of Housing Trust's investments measured at fair value on a recurring basis at June 30, and set forth by level within the fair value hierarchy, is as follows:

	2018			2017		
Description	Level 1	Level 2	Total	Level 1	Level 2	Total
Domestic fixed income	$ -	$ 2,883,867	$ 2,883,867	$ -	$ 2,248,083	$ 2,248,083
Domestic equity	1,394,860	-	1,394,860	1,552,978	-	1,552,978
International equity mutual funds	819,102	-	819,102	383,902	-	383,902
International fixed income	-	77,196	77,196	-	130,220	130,220
Total investments at fair value	2,213,962	2,961,063	5,175,025	1,936,880	2,378,303	4,315,183
Certificates of deposit	-	-	2,995,474	-	-	4,022,542
Total investments	$ 2,213,962	$ 2,961,063	$ 8,170,499	$ 1,936,880	$ 2,378,303	$ 8,337,725

Investment management fees of $34,637 and $32,875 for 2018 and 2017, respectively, are included net of investment return on the consolidated statements of activities and consist of the following for the years ended June 30:

	2018	2017
Interest	$ 81,010	$ 123,287
Dividends	320,651	46,783
Unrealized and realized gains	242,050	295,769
	$ 643,711	$ 465,839

Note 4. Receivables

Receivables are summarized as follows at June 30:

	2018	2017
Contributions:		
Restricted for programs	$ 74,000	$ 150,000
Unrestricted contributions	310,742	250
Less discount on contributions	(9,790)	-
Total contributions receivable	374,952	150,250
Other receivables	159,319	159,307
Less allowance for doubtful accounts	(2,000)	-
Total receivables	$ 532,271	$ 309,557

Contributions expected to be received within one year have not been discounted. Contributions expected to be received in one to five years of $187,500 have been discounted at 2.73 percent. Contributions receivable are unsecured.

Note 5. Notes Receivable

Notes receivable, net, consist of the following as of June 30:

	2018	2017
Homebuyer programs:		
Closing Cost Assistance Program (CCA) (1)	$ 2,908,063	$ 3,208,093
Mortgage Assistance Program (MAP) (2)	1,960,396	2,307,330
Equity Share Co-Investment (ESCO) (3)	183,756	183,756
Gap Assistance Program (GAP) (4)	1,495,003	1,750,521
Homebuyer Empowerment Loan Program (HELP) (5)	146,100	-
NSP2 Purchase Assistance Loan (PAL) (6)	1,313,370	1,511,878
NHS Portfolio:		
Contributed deferred loans (7)	3,350,718	3,718,023
Contributed amortizing loans (7)	258,862	315,372
Less discount on contributed loans (7)	(243,957)	(291,353)
Purchased amortizing loans (8)	154,801	237,968
Less discount on purchased loans (8)	(108,195)	(169,098)
	11,418,917	12,772,490
Multi-family programs (9):		
Affordable housing developer loans:		
Short-term loan program	45,078,367	38,298,646
Term loan program	1,771,640	1,891,589
Long-term deferred loan program	16,820,634	14,170,253
	63,670,641	54,360,488
Gross notes receivable	75,089,558	67,132,978
Less allowance for loan losses	(2,380,000)	(1,680,000)
Net notes receivable	72,709,558	65,452,978
Less current portion	(22,064,329)	(10,450,475)
Long-term portion	$ 50,645,229	$ 55,002,503

Homebuyer programs: Homebuyer programs are designed to help qualified homebuyers in Santa Clara County purchase a 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 mortgage must be a 30-year fixed mortgage. In addition, borrowers must reside in the financed home as their principal residence. If a default occurs, 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 launched a new program in 2018 to help low- to moderate-income homebuyers purchase their first homes to make loans affordable to a broader range of potential homeowners.

Note 5. Notes Receivable (Continued)

Housing Trust's homebuyer programs are as follows:

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

(2) MAP - provides loans up to $85,000, 30-year amortized second mortgage, secured by deeds of trust with interest at a rate of 1 percent to 1.5 percent 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 mortgage or upon default of the terms of the Housing Trust loan, whichever occurs first.

(3) ESCO - provides down payment assistance in the form of loans in an amount up to $75,000, secured by deeds of trust. Housing Trust lent funds in an amount equal to the borrower's down payment. ESCO loans are 15-year deferred loans. At maturity principal plus a share of the home's appreciation are due. This balance is due in 15 years, or upon any sale, transfer assignment or refinance of the first mortgage or upon default of the terms of the Housing Trust loan, whichever occurs first. Housing Trust is entitled to the lesser of 9.5 percent or a share of the house appreciation when the loan is settled, and recognizes the 9.5 percent interest on an annual basis as long as its share of house appreciation is more. Interest income was $142,979 and $125,522 for the years ended June 30, 2018 and 2017, respectively, which is included in deferred interest receivable on the consolidated statements of financial position.

(4) GAP - offers a maximum loan amount of 20 percent of the purchase price up to $95,000, secured by deeds of trust and bears interest at 3 percent. Payment of principal and accrued interest is deferred until maturity date of the related first mortgage, or upon any sale, transfer, assignment or refinance of the first mortgage or upon default of the terms of Housing Trust loan, whichever occurs first.

(5) HELP - provides down payment assistance for up to half a buyer's down payment (or 10 percent of the purchase price of a home up to $800,000). A HELP Loan is a 30-year deferred loan secured by deeds of trust. At maturity, principal plus a share of the home's appreciation that matches what is borrowed is due. Because the loan is a shared appreciation loan, no monthly payments are required. Payment is deferred until the loan reaches its maturity date, or until the home is sold, or the mortgage refinanced or upon default of the terms of the Housing Trust loan, whichever comes first

(6) 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. The loans are secured by deeds of trust, have a maximum loan amount of $50,000 and bear simple interest of 0 percent to 3 percent. Payment of principal and accrued interest is deferred with entire balance due in full on the maturity date of the related first mortgage, or upon any sale, transfer, assignment or refinance of the first mortgage, whichever occurs first. The PAL program was discontinued as of June 30, 2013.

Note 5. Notes Receivable (Continued)

(7) Housing Trust received a portfolio of notes receivable contributed by Neighborhood Housing Services Silicon Valley (NHS) upon its dissolution. The NHS deferred loan portfolio consists of loans ranging from $8,000 to $80,000 in face value and bears interest at between 2 percent and 3 percent. Payment of principal and accrued interest is deferred until maturity date of the related first mortgage, or upon any sale, transfer, assignment or refinance of the first mortgage or upon default of the terms of the loan, whichever occurs first. The NHS amortizing loan portfolio consists of loans that have a face value of between $12,000 and $26,000 and carry interest of between 3 percent and 8 percent. These loans begin amortizing after five years.

In 2017, Housing Trust received additional loans from NHS 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.

	Face Amount	Unobservable Inputs (Level 3)
NHS deferred loan portfolio	$ 565,000	$ 490,073
NHS amortizing loan portfolio	-	-
	$ 565,000	$ 490,073

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 percent 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 percent was added to the TIPS yield rates. The present value calculation resulted in a $74,927 discount for the NHS deferred loan portfolio contributed in 2017. The present value calculation for the NHS amortizing loan portfolio approximates face value; therefore, no discount or premium was recorded on the amortizing portfolio.

(8) In 2017, Housing Trust purchased a portfolio of notes receivable from NHS 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 bears interest at 6 percent.

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

	Face Amount	Unobservable Inputs (Level 3)
NHS purchased amortizing loans	$ 254,527	$ 76,586

The purchase price of the portfolio was 30 percent 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 $177,941. Included in the purchased portfolio were two loans with a combined face value of $69,191 and a combined discount of $69,191 that were accounted for under Accounting Standards Codification 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. The loans are on nonaccrual status. The loans have been excluded from the disclosures within this note.

Note 5. Notes Receivable (Continued)

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.

(9) Qualified developers may borrow up to $500,000 for predevelopment and $10,000,000 for acquisition, construction, and rehabilitation. These loans are primarily secured by deeds of trust. Housing Trust loan products include:

A. The short-term loan program provides early stage patient capital not offered by traditional lenders for predevelopment, acquisition, bridge or construction financing. Terms are up to five 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 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 multi-family properties. Terms are between five and 20 years.

C. Long-term deferred term loans provide maturities for up to 55 years.

Note 5. Notes Receivable (Continued)

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

	2018		
	Homebuyer Program Allowance	Multi-Family Program Allowance	Total
Balance, beginning of year	$ 580,000	$ 1,100,000	$ 1,680,000
Provision for loan losses	-	700,000	700,000
Recoveries	-	-	-
Write-offs	-	-	-
Balance, end of year	$ 580,000	$ 1,800,000	$ 2,380,000
Ending balance:			
individually evaluated for impairment	$ -	$ -	$ -
Ending balance:			
collectively evaluated for impairment	580,000	1,800,000	2,380,000
	$ 580,000	$ 1,800,000	$ 2,380,000
Total loans:			
Ending balance:			
individually evaluated for impairment	$ 15,000	$ -	$ 15,000
Ending balance:			
collectively evaluated for impairment	11,403,917	63,670,641	75,074,558
	$ 11,418,917	$ 63,670,641	$ 75,089,558

Note 5. Notes Receivable (Continued)

	2017		
	Homebuyer Program Allowance	Multi-Family Program Allowance	Total
Balance, beginning of year	$ 784,000	$ 420,000	$ 1,204,000
Provision for loan losses	(197,500)	680,000	482,500
Recoveries	-	-	-
Write-offs	(6,500)	-	(6,500)
Balance, end of year	$ 580,000	$ 1,100,000	$ 1,680,000
Ending balance: individually evaluated for impairment	$ -	$ -	$ -
Ending balance: collectively evaluated for impairment	580,000	1,100,000	1,680,000
	$ 580,000	$ 1,100,000	$ 1,680,000
Total loans:			
Ending balance: individually evaluated for impairment	$ 66,356	$ -	$ 66,356
Ending balance: collectively evaluated for impairment	12,706,134	54,360,488	67,066,622
	$ 12,772,490	$ 54,360,488	$ 67,132,978

Housing Trust considers the performance of the notes receivable portfolio and its impact on the allowance for loan losses. For the multi-family portfolio segment, management will evaluate credit quality of individual loans based on payment activity, borrower financial condition and other factors in order to assign individual risk ratings. The following table shows the multi-family portfolio segment as allocated by management's internal risk ratings as of June 30:

	2018	2017
Pass	$ 63,670,641	$ 54,360,488

Note 5. Notes Receivable (Continued)

Future maturities on homebuyer programs notes receivable within the next five years are $60,000. Future principal repayments for the multi-family programs loans are estimated as follows:

Years ending June 30:	
2019	$ 21,903,312
2020	19,012,305
2021	4,162,750
2022	-
2023	-
Thereafter	18,552,304
	$ 63,630,671

The following presents the recorded investment and unpaid principal balance for impaired loans, with the associated allowance amount, if applicable, as of June 30:

	2018			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Impaired loans without an allowance:				
Homebuyer	$ 15,000	$ 15,000	$ -	$ 40,678

	2017			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Impaired loans without an allowance:				
Homebuyer	$ 66,356	$ 66,356	$ -	$ 48,119

For 2018 and 2017, interest income recognized on impaired loans was not significant.

There were no loans modified as TDRs as of June 30, 2018 or 2017.

Note 5. Notes Receivable (Continued)

A summary of loans measured at fair value on a nonrecurring basis at June 30, and set forth by level within the fair value hierarchy, is as follows:

	Carrying Value at 2018			
Description	Total	Level 1	Level 2	Level 3
Impaired loans	$ 15,000	$ -	$ -	$ 15,000

	Carrying Value at 2017			
Description	Total	Level 1	Level 2	Level 3
Impaired loans	$ 66,356	$ -	$ -	$ 66,356

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 follow:

	2018				
				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
Homebuyer programs	$ 11,418,917	$ 15,000	$ 580,000	$ 15,000	$ -
Multi-family programs:					
Funded by Affordable Housing Growth Fund LP (AHGF)	674,000	-	250,000	-	-
Unsecured	2,969,768	-	216,793	-	-
Non-real estate secured	6,546,944	-	477,927	-	-
Long-term deferred loan program	14,828,226	-	-	-	-
Real estate secured	38,651,703	-	855,280	-	-
	63,670,641	-	1,800,000	-	-
Total portfolio	$ 75,089,558	$ 15,000	$ 2,380,000	$ 15,000	$ -

Note 5. Notes Receivable (Continued)

	2017				
				Status of Interest Accruals	
	Loan Balance	Past Due ≥ 90 Days	Allowance	Total Financing Receivable on Nonaccrual Status	Financing Receivables Past Past Due and Still Accruing Interest
Homebuyer programs	$ 12,772,490	$ 66,356	$ 580,000	$ -	$ 66,356
Multi-family programs:					
Funded by AHGF	4,298,017	-	250,000	-	-
Unsecured	1,181,421	-	82,699	-	-
Non-real estate secured	751,984	-	52,639	-	-
Long-term deferred loan program	14,046,597	-	-	-	-
Real estate secured	34,082,469	-	714,662	-	-
	54,360,488	-	1,100,000	-	-
Total portfolio	$ 67,132,978	$ 66,356	$ 1,680,000	$ -	$ 66,356

Note 6. Furniture and Equipment

Furniture and equipment are summarized as follows at June 30:

	2018	2017
Office equipment	$ 90,887	$ 40,783
Software	52,889	50,804
Furniture and fixtures	163,643	68,502
Leasehold improvements	19,211	-
	326,630	160,089
Less accumulated depreciation and amortization	(99,205)	(135,411)
Total furniture and equipment	$ 227,425	$ 24,678

Depreciation and amortization charged to expense was $32,790 and $19,522 for the years ended June 30, 2018 and 2017, respectively.

Note 7. Non-Recourse Capital from Third Parties

Housing Trust 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. This capital is non-recourse with the exception of a required loan loss reserve in AHGF described below. Housing Trust's loan pools outstanding are as follows:

	2018	2017
Affordable Housing Growth Fund (AHGF) (1)	$ 491,968	$ 3,258,141
2015 Loan Fund - Tranche I (2)	-	2,970,582
2015 Loan Fund - Tranche II (2)	3,772,480	2,551,722
Monterey Bay Housing Trust (3)	47,942	1,700
	4,312,390	8,782,145
Less current portion	(3,182,869)	(3,258,141)
Long-term portion	$ 1,129,521	$ 5,524,004

(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 five 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 percent of the combined contributed capital of the Housing Trust and the Investor Banks, which represents the Investor Banks' only recourse. Cash designated for loan loss reserve was $250,000 in 2018 and 2017 and is included in cash and cash equivalents in the statement of financial position. The Agreement was extended for an additional five-year period upon the original termination date of January 1, 2018.

(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 five years. The termination date for the Agreement is March 1, 2020.

In March 2017, some of the original 2015 loan pool Investor Banks agreed along with one new Investor 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 of $2,000,000. The total loan pool (both tranches) including Housing Trust's commitment stands at $16,100,000.

Note 7. Non-Recourse Capital from Third Parties (Continued)

(3) Monterey Bay Housing Trust - 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. Qualified developers may borrow up to a maximum loan amount of $4,000,000 for real estate secured loans or $500,000 for non-real estate secured loans. The maximum loan term is 5 years. The termination date for the Agreement is June 1, 2022.

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. The non-recourse capital, other than the $250,000 in loan loss reserve, is not required to be repaid if the $4,312,390 and $8,782,145 as of June 30, 2018 and 2017, respectively, of corresponding notes receivable within the multi-family program in Note 5 are not repaid.

Note 8. Notes Payable

Notes payable are unsecured and consist as follows:

	2018	2017
Term loans:		
Notes payable to religious and health and welfare organizations, bearing interest of 2.00%, with interest due quarterly, to be repaid in full from June 2020 to November 2024. Interest expense was $23,500 and $11,000 in 2018 and 2017, respectively.	$ 1,550,000	$ 550,000
Notes payable to financial institutions, bearing interest from 3.00% to 3.05%, with interest due monthly or quarterly, to be repaid in full from November 2019 to December 2025. Interest expense was $139,795 and $128,273 for 2018 and 2017, respectively.	4,500,000	5,600,000
Series A Community Impact 5-year note, bearing interest of 1.50%, paid semiannually, to be repaid in full in 2022. (1) Interest expense was $168,541 and $0 in 2018 and 2017, respectively.	15,000,000	5,000,000
Notes payable to foundations, bearing interest from 1.50% to 2.00%, with interest due quarterly, to be repaid in full from January 2023 to August 2027. Interest expense was $186,002 and $47,917 for 2018 and 2017, respectively.	15,600,000	3,000,000
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 $77,028 and $52,257 for 2018 and 2017, respectively.	7,750,000	7,750,000
Outstanding revolving line of credit:		
Charles Schwab Bank revolving line of credit with a maximum amount of $10,000,000, bearing interest of 3.00%. Interest expense was $26,647 and $12,971 in 2018 and 2017, respectively.	-	775,000
	44,400,000	22,675,000
Less current portion	-	(2,600,000)
Less unamortized loan fees	(24,524)	-
Long-term portion	$ 44,375,476	$ 20,075,000

(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, five-year note bearing interest of 1.50 percent, paid semiannually, and Series B, ten-year note bearing interest rate at 2.00 percent, 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, 2018 and 2017, $15,000,000 and $5,000,000 Series A notes, respectively, have been sold.

Note 8. Notes Payable (Continued)

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

Years ending June 30:	
2019	$ -
2020	3,700,000
2021	350,000
2022	17,500,000
2023	850,000
Thereafter	22,000,000
	$ 44,400,000

Housing Trust had an unsecured $4,000,000 revolving line of credit agreement (credit line) with MUFG Union Bank, N.A. The credit line required monthly interest only payments equal to the reference rate, as announced periodically by MUFG Union Bank, N.A., less 0.25 percent, and a maturity date of July 1, 2018. The line of credit was cancelled by Housing Trust in April 2018. There was no outstanding balance under this line of credit at June 30, 2018 and 2017.

Note 9. Related-Party Transactions

Housing Trust's volunteer members of the Board of Directors are active in oversight of fundraising events, activities and making private contributions. Certain Board members have served as elected officials on jurisdictions which support 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 $358,668 and $113,190 for the years ended June 30, 2018 and 2017, respectively.

Note 10. Grants

Grants payable and expenses are summarized as follows:

	2018		2017	
Payable to/Description	Payable at June 30, 2018	Grant Expense	Payable at June 30, 2017	Grant Expense
City of San Jose - NSP2 (1)	$ -	$ -	$ 10,372	$ -
Youth Shelter Grant (2)	-	83,264	-	471,736
Other organizations - SNCI Program (3)	-	141,740	-	40,000
Other individuals - Finally Home Security Deposit Program (4)	-	244,493	-	297,540
SV@Home - spin-off (5)	-	-	-	584,260
Other (6)	-	330,526	-	126,000
	$ -	$ 800,023	$ 10,372	$ 1,519,536

Note 10. Grants (Continued)

(1) During 2018 and 2017, the City contributed to Housing Trust the proceeds from NSP2 loan payoffs in the amount of $298,702 and $156,304, respectively. The amount is included in government contributions on the accompanying consolidated statements of activities. The proceeds received by Housing Trust are used to make grants to selected organizations.

(2) Housing Trust entered into a Memorandum of Understanding (MOU) with Santa Clara County for a $1,000,000 cost reimbursement "Shelter Funds" grant. Housing Trust will manage the application and award process and make grants 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. This work was completed in fiscal year 2018 and unspent funds were returned to Santa Clara County.

(3) In 2016, Housing Trust recognized a contribution of $750,000 from Santa Clara County 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. In fiscal years 2017 and 2018, Housing Trust granted a portion of the funds to three non-profit organizations.

(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) 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.

Note 11. Conditional Contributions

Conditional contributions consists of the following:

	2018	2017
CalHome (1)	$ -	$ 321,030
Santa Clara County - SNCI (2)	532,607	690,455
Santa Clara County - SHF (3)	2,194,725	8,546,891
Chase - ProNeighborhoods Genesis (4)	1,250,000	-
Total conditional contributions	3,977,332	9,558,376
Less current portion	(3,977,332)	(1,011,485)
Long-term portion	$ -	$ 8,546,891

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

(3) Santa Clara County (the County) and Housing Trust entered into an 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 contributed matching funds with its own resources, which did 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. Contribution revenue from these grants is recognized as funds are lent for the first time. The balance in conditional contributions represents funds received but not lent as of June 30, 2018 and 2017, respectively.

Note 11. Conditional Contributions (Continued)

(4) In October 2017, Housing Trust signed a Memorandum of Understanding (MOU) with Genesis LA Economic Development Corp to pilot new approaches to affordable housing in two of California's most expensive housing markets. The initiative, called Small Housing, Big Impact, focuses on projects the existing affordable housing finance system does not currently prioritize: accessory dwelling units (ADUs) and multi-family buildings with fewer than 20 units. Via the MOU, Genesis regranted half of the $3.5 million in funds it received in a ProNeighborhoods grant from JP Morgan Chase. The two organizations will cooperate to develop programs and share learnings. Housing Trust recognized support for the full portion of the $250,000 re-grant to be used as operating capital. An additional $1,500,000 is set aside for lending and granting capital and such funds must be returned if Housing Trust is unsuccessful at developing a program and investing the monies. Housing Trust received $1,250,000 of the lending/granting capital in 2018 and recorded it as a conditional contribution. The remaining $250,000 of lending/granting capital is due in December 2018.

Note 12. Temporarily Restricted Net Assets

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

	2018			
	June 30, 2017	Contributions	Releases from Restrictions	June 30, 2018
General lending programs	$ 3,848,039	$ -	$ (214,295)	$ 3,633,744
Homebuyer programs	7,779,061	233,865	(125,255)	7,887,671
NSP2	7,385,834	302,572	(110,013)	7,578,393
Affordable Multi-Family Rental Program and Homeless/Special Needs Program	11,959,199	7,144,313	(1,932,629)	17,170,883
Finally Home and Rehabilitation program	7,531	344,006	(295,727)	55,810
Time restrictions	-	910,000	(233,334)	676,666
	$ 30,979,664	$ 8,934,756	$ (2,911,253)	$ 37,003,167

	2017			
	June 30, 2016	Contributions	Releases from Restrictions	June 30, 2017
General lending programs	$ 4,830,192	$ 405,500	$ (1,387,653)	$ 3,848,039
Homebuyer programs	7,100,660	756,506	(78,105)	7,779,061
NSP2	7,183,450	239,188	(36,804)	7,385,834
Affordable Multi-Family Rental Program and Homeless/Special Needs Program	6,201,175	6,305,799	(547,775)	11,959,199
Advocacy and policy	320,000	154,435	(474,435)	-
Finally Home and Rehabilitation program	6,531	54,500	(53,500)	7,531
	$ 25,642,008	$ 7,915,928	$ (2,578,272)	$ 30,979,664

Note 12. Temporarily Restricted Net Assets (Continued)

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. Contributions received from government agencies with both purpose and time restrictions are not released from restriction until the later of the restrictions is met. 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 $21,824,058 and $21,237,347 of disbursed funds with secondary-use restrictions as of June 30, 2018 and 2017, 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 percent of eligible employees' compensation and up to an additional 2 percent of matching funds for those employees who contribute to the Plan. Housing Trust contributed $81,570 and $68,923 to the Plan during 2018 and 2017, respectively.

Note 14. Office Lease

Housing Trust leases office space in San Jose under a noncancelable operating lease expiring in 2024. Rent expense for the years ended June 30, 2018 and 2017 was $153,083 and $130,284, respectively. The following represents the future minimum lease payments:

Years ending June 30:	
2019	$ 124,629
2020	263,150
2021	264,611
2022	272,327
2023	279,040
Thereafter	46,610
	$ 1,250,367

Note 15. Commitments and Contingencies

Housing Trust had undisbursed loan commitments totaling $24,865,224 and $13,509,664 as of June 30, 2018 and 2017, respectively, relating to its multi-family programs.

On September 25, 2017, Housing Trust entered into a $25,000,000 bond loan agreement 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. As it draws on the funds, Housing Trust is required to pledge eligible collateral to the lender and to fund three percent of the bond loan amount in a risk share pool. Housing Trust intends to use the funds to finance term loans to its multi-family borrowers. No amounts have been drawn down as of June 30, 2018.

Note 16. Subsequent Events

Subsequent to year-end, Housing Trust offered for sale up to $20,000,000 Community Impact Notes to fund its multi-family lending program. The Notes, Series C, five-year note bearing interest of 1.50 percent, paid semiannually, and Series D, ten-year note bearing interest rate at 2.00 percent, paid semiannually, are unsecured. In July 2018, the Grove Foundation purchased a $1,500,000 Series C Community Impact Note bearing interest at 1.5 percent and maturing April 30, 2023.