Housing Trust Silicon Valley

Consolidated Financial Report
June 30, 2019

Contents

Independent Auditor's Report

RSM

RSM US LLP

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 statements of financial position as of June 30, 2019 and 2018, 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 (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 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 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, 2019 and 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.

Emphasis of Matter
As discussed in Note 2 to the financial statements, Housing Trust Silicon Valley retroactively adopted the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The adoption of this standard resulted in additional footnote disclosures and significant changes to the cash flows. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2019, 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.

RSM US LLP

San Jose, California
October 4, 2019

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

Consolidated Statements of Financial Position
June 30, 2019 and 2018

		2019		2018
Assets				
Current assets:				
Cash and cash equivalents	**$**	**37,858,690**	$	37,151,198
Restricted cash and cash equivalents		**971,549**		-
Restricted investments (Note 4)		**1,801,864**		2,491,630
Investments (Note 4)		**14,012,072**		5,678,869
Receivables, net (Note 5)		**606,791**		354,561
Prepaid expenses		**102,716**		75,880
Notes receivable held for sale		**337,450**		-
Notes receivable, net (Note 6)		**34,102,636**		22,064,329
Total current assets		**89,793,768**		67,816,467
Notes receivable, net of current portion (Note 6)		**75,256,444**		50,605,259
Receivables, net of current portion (Note 5)		**115,210**		177,710
Deferred interest receivable		**1,100,380**		1,086,665
Furniture and equipment, net (Note 7)		**190,558**		227,425
Other assets		**122,491**		134,101
Total assets	**$**	**166,578,851**	$	120,047,627
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	**$**	**231,678**	$	123,216
Accrued expenses		**791,930**		292,741
Conditional contributions (Note 12)		**1,695,150**		3,977,332
Nonrecourse capital from third parties - current portion (Note 8)		**2,821,212**		3,182,869
Notes payable - current portion (Note 9)		**1,700,000**		-
Total current liabilities		**7,239,970**		7,576,158
Nonrecourse capital from third parties, net of current portion (Note 8)		**10,098,939**		1,129,521
Notes payable, net of current portion (Note 9)		**74,179,087**		44,375,476
Total liabilities		**91,517,996**		53,081,155
Commitments and contingencies (Notes 15 and 16)				
Net assets:				
Without donor restrictions		**34,836,229**		29,963,305
With donor restrictions (Note 13)		**40,224,626**		37,003,167
Total net assets		**75,060,855**		66,966,472
Total liabilities and net assets	**$**	**166,578,851**	$	120,047,627

See notes to consolidated financial statements.

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

Consolidated Statement of Activities
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Government grants and contributions	$ 307,483	$ 7,186,962	$ 7,494,445
Other contributions	195,265	527,041	722,306
Revenue from special events, net of direct costs	306,409	-	306,409
Interest income on loans	3,071,004	148,822	3,219,826
Program service fees	2,101,673	-	2,101,673
Investment return, net of fees (Note 4)	927,509	180,563	1,108,072
In-kind contribution	22,985	-	22,985
Net assets released from restrictions (Note 13)	4,821,929	(4,821,929)	-
Total support and revenue	11,754,257	3,221,459	14,975,716
Expenses:			
Program services	5,409,037	-	5,409,037
Management and general	1,104,986	-	1,104,986
Fundraising	367,310	-	367,310
Total expenses	6,881,333	-	6,881,333
Change in net assets	4,872,924	3,221,459	8,094,383
Net assets, beginning of year	29,963,305	37,003,167	66,966,472
Net assets, end of year	$ 34,836,229	$ 40,224,626	$ 75,060,855

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

	Without Donor Restrictions	With Donor Restrictions	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 on loans	2,018,165	154,012	2,172,177
Program service fees	1,173,189	-	1,173,189
Investment return, net of fees (Note 4)	609,074	-	609,074
In-kind contribution	45,083	-	45,083
Net assets released from restrictions (Note 13)	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 Functional Expenses
Year Ended June 30, 2019

	Program Services							Supporting Services			
	Homebuyer Programs	Multi-Family Programs	Safety Net and Homeless Prevention	Asset Management	Accessory Dwelling Unit (ADU) Program	Policy and Education	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries and benefits	$ 311,638	$ 669,781	$ 117,447	$ 355,206	$ 241,985	$ 42,910	$ 1,738,967	$ 706,899	$ 236,937	$ 943,836	$ 2,682,803
Occupancy and office expense	61,786	65,020	20,946	38,292	28,598	1,542	216,184	72,975	26,824	99,799	315,983
Accounting, legal and professional fees	62,934	66,055	9,653	17,937	49,220	389	206,188	234,013	24,631	258,644	464,832
Marketing and communication	7,030	762	232	678	7,877	13	16,592	881	49,697	50,578	67,170
Donations/sponsorships	-	39,700	-	-	-	-	39,700	27,400	-	27,400	67,100
Meetings, conferences and travel	5,453	17,080	2,355	7,176	8,523	35	40,622	17,799	2,750	20,549	61,171
Interest expense	-	1,043,753	-	-	-	-	1,043,753	-	-	-	1,043,753
Other operating expenses	18,918	23,109	2,550	10,491	5,940	188	61,196	33,614	8,544	42,158	103,354
Grants awarded (Note 11)	-	54,546	606,496	34,875	16,500	-	712,417	-	12,000	12,000	724,417
Total expenses before provision for loan losses and depreciation and amortization	467,759	1,979,806	759,679	464,655	358,643	45,077	4,075,619	1,093,581	361,383	1,454,964	5,530,583
Provision for loan losses	-	1,286,000	-	-	-	-	1,286,000	-	-	-	1,286,000
Depreciation and amortization	13,448	14,291	4,641	8,462	6,234	342	47,418	11,405	5,927	17,332	64,750
Total expenses	$ 481,207	$ 3,280,097	$ 764,320	$ 473,117	$ 364,877	$ 45,419	$ 5,409,037	$ 1,104,986	$ 367,310	$ 1,472,296	$ 6,881,333

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	Accessory Dwelling Unit (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 11)	64,526	240,000	495,497	-	-	-	800,023	-	-	-	800,023
Total expenses before provision for loan losses and depreciation and amortization	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 Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	(Restated) 2018
Cash flows from operating activities:		
Cash received from donors for operations	**$ 5,807,003**	$ 3,367,728
Cash received from program fees and other	**2,408,082**	1,431,230
Cash received from interest income - lending activities	**3,232,784**	2,115,201
Cash received for interest and dividends	**906,359**	336,302
Cash payments to employees	**(2,183,613)**	(2,143,691)
Cash payments to vendors and others	**(976,347)**	(1,026,212)
Cash payments of interest	**(1,040,142)**	(598,613)
Grants paid to individuals/organizations	**(724,417)**	(810,372)
Net cash provided by operating activities	**7,429,709**	2,671,573
Cash flows from investing activities:		
Proceeds from the sale of investments	**98,287,513**	2,600,000
Purchases of investments	**(107,091,116)**	(2,190,724)
Purchases of furniture and equipment	**(27,884)**	(235,536)
Notes receivable disbursed	**(65,247,858)**	(36,189,210)
Collection of notes receivable	**28,220,916**	28,523,879
Net cash used in investing activities	**(45,858,429)**	(7,491,591)
Cash flows from financing activities:		
Cash received from long-term debt	**31,500,000**	32,600,000
Cash payments on long-term debt	**-**	(10,875,000)
Cash received from loan pool participants	**10,244,664**	1,722,328
Cash payments to loan pool participants	**(1,636,903)**	(6,192,083)
Net cash provided by financing activities	**40,107,761**	17,255,245
Net increase in cash and cash equivalents and restricted cash and cash equivalents	**1,679,041**	12,435,227
Cash and cash equivalents and restricted cash and cash equivalents, beginning of year	**37,151,198**	24,715,971
Cash and cash equivalents and restricted cash and cash equivalents, end of year	**$ 38,830,239**	$ 37,151,198

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 San Francisco Bay Area. From the homeless to renters to first-time homebuyers, Housing Trust assists a wide range of residents with programs across the entire spectrum of housing finance. 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 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 administers a similar program on behalf of the County of Santa Clara (SCC), Empower Homebuyers SCC. There is nearly $25 million of capital available for these loans in funds from Measure A which was passed in 2016. 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. 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 has begun its grant close-out period of five years. Housing Trust has received loan repayments which are available for lending subject to program restrictions and are included in net assets with donor restrictions.

- Advocacy and Policy - Housing Trust works closely with its incubated but now independent advocacy organization, SV@Home, to support its activities as well as carries on a minimal amount of its own policy work in order to help move agendas forward that will help strengthen the affordable housing market in the greater San Francisco Bay Area.

Note 1. Organization and Nature of Activities (Continued)

- 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. Housing Trust offers a planning grant to homeowners looking to create an ADU and plans to launch its construction loan program in fiscal 2020. These efforts are currently focused on increasing the supply of affordable housing in Santa Clara County.

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 January 2019.

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 net assets with and without donor restrictions and under the accrual basis of accounting.

Net assets without donor restrictions: Net assets *without donor restrictions* are not subject to donor-imposed restrictions and include the carrying value of all physical properties. 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.

Net assets with donor restrictions: Net assets with donor restrictions represent contributions and other assets received from donors that are limited in use by Housing Trust in accordance with temporary donor-imposed stipulations or limited as to time. 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 net assets with donor restrictions and recognized as net assets without donor restrictions.

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. Significant estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for loan losses.

Note 2. Summary of Significant Accounting Policies (Continued)

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, Equity Equivalent Investments (EQ2) loans 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 have diversified greatly. Housing Trust continues to be reliant on corporate and individual contributions; however, its self-sufficiency ratio has improved to 110% in fiscal year 2019 such that it is much 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 roughly to program fees plus interest income plus investment earnings divided by program expenses.

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 cash equivalents and restricted investments: As of June 30, 2019 and 2018, restricted cash and cash equivalents and restricted investments is held for amounts related to the ongoing CalHome program.

Receivables: Receivables include contribution and other earned income receivables. Housing Trust evaluates the collectability of its receivables on an ongoing basis and records a provision for potential uncollectible receivables when appropriate. At June 30, 2019 and 2018, Housing Trust has recorded an allowance for doubtful accounts of $0 and $2,000, respectively.

Contributions: Contributions are recognized at fair value as revenue when they are unconditionally promised. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. Contributions are recorded as support without donor restrictions or support with donor restrictions, 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), net assets with donor restrictions are reclassified to net assets without donor restrictions 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 recognized as revenue until the conditions are substantially met. Conditional contributions received with lending purpose restrictions are recognized as revenue when the money is lent as Housing Trust is required to repay any monies not lent (see Note 12).

Note 2. Summary of Significant Accounting Policies (Continued)

Contributed services are stated at their estimated fair value if they are ordinarily purchased and are of a specialized nature. Contributed services were approximately $23,000 and $45,000 for fiscal years ended June 30, 2019 and 2018, 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.

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 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.

Note 2. Summary of Significant Accounting Policies (Continued)

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.

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 held for sale: Notes receivable originated and intended for sale to third-parties are carried at the lower of aggregate cost or estimated market value. All sales are made without recourse and are subject to the customary representations and warranties.

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 notes receivable and recorded as an adjustment to loan fee revenue. At June 30, 2019 and 2018, 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 collectability 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.

Note 2. Summary of Significant Accounting Policies (Continued)

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.

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 net of notes receivable 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 collectability 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.

Note 2. Summary of Significant Accounting Policies (Continued)

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.

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 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 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 collectability 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.

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.

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.

Note 2. Summary of Significant Accounting Policies (Continued)

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, does 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 2015 through 2018 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: Expenses that are directly attributable to a program or supporting function are charged directly to the related program or supporting function. The consolidated financial statements report certain categories of natural expenses that are attributable to one or more program or supporting function of Housing Trust. Those expenses include salaries and benefits, occupancy and office expense, marketing and communication, meetings, conferences and travel, other operating expenses, and depreciation and amortization. Salaries and benefits is allocated based on estimates of time and effort of direct supervision or conduct of the activity. All other expenses are allocated based on headcount.

Subsequent events: Housing Trust has evaluated subsequent events through October 4, 2019, the date on which the consolidated financial statements were available to be issued.

Reclassification: Certain amounts previously reported in the 2018 financial statements were reclassified to conform to the 2019 presentation for comparative purposes with no impact to previously reported net assets and change in net assets.

Recent accounting pronouncements not yet adopted: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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, 2018. Housing Trust has selected the modified retrospective transition method and is currently evaluating the effect that the standard will have on its consolidated financial statements, and 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, 2020, 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 instruments. The existing incurred loss model will be replaced with a current expected credit loss (CECL) model for both originated and acquired financial instruments carried at amortized cost and off-balance-sheet credit exposures, including loans, loan commitments, held-to-maturity debt securities, financial guarantees, net investment in leases, and most receivables. Recognized amortized cost financial assets will be presented at the net amount expected to be collected through an allowance for credit losses. Expected credit losses on off-balance-sheet credit exposures will be recognized through a liability. Expected credit losses on available-for-sale (AFS) debt securities will also be recognized through an allowance; however, the allowance for an individual AFS debt security will be limited to the amount by which fair value is below amortized cost. Unlike current guidance, which requires certain favorable changes in expected cash flows to be accreted into interest income, both favorable and unfavorable changes in expected credit losses (and therefore the allowance) will be recognized through credit loss expense as they occur. With the exception of purchased financial assets with a more than insignificant amount of credit deterioration since origination, for which the initial allowance will be added to the purchase price of the assets, the initial allowance on financial assets subject to the scope (whether originated or acquired) will be recognized through credit loss expense. Expanded disclosures will also be required.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This accounting standard update clarifies and improves the scope of contribution guidance relating to evaluation of contributions versus exchange transactions, or nonreciprocal versus reciprocal transactions, respectively. This ASU also provides clarity in determining whether a contribution is conditional. ASU 2018-08 is effective for transactions as recipients for annual periods beginning after December 15, 2018 and transactions as providers for annual periods beginning after December 15, 2019, although early adoption is permitted. Housing Trust is currently evaluating the impact of adoption to the consolidated financial statements.

In November 2018, the FASB issued ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*. ASU 2018-19 clarifies that receivables from operating leases are accounted for using the lease guidance and not as financial instruments. The ASUs are effective for fiscal years beginning after December 15, 2021. Housing Trust is currently evaluating the impact of adopting this new guidance on its consolidated financial statements.

Note 2. Summary of Significant Accounting Policies (Continued)

Newly adopted accounting pronouncement: In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*, which revised the not-for-profit financial reporting model and enhanced the required disclosures. The major changes included: (a) requiring the presentation of only two classes of net assets now titled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring an analysis of expenses by function and nature, in either the statement of activities, a separate statement, or in the notes, and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of not-for-profit financial statements. ASU 2016-14 became effective for fiscal years beginning after December 15, 2017. Housing Trust adopted this standard for the year ended June 30, 2019 and applied retrospectively for the year ended June 30, 2018. As part of the adoption in ASU 2016-14, Housing Trust changed from indirect to direct method in presentation of cash flows. This resulted in a restatement of cash flows with no impact to previously reported net assets and change in net assets.

Note 3. Liquidity and Availability

Housing Trust regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. As of June 30, 2019, the following financial assets are available to meet annual operating needs of the 2020 fiscal year:

Financial assets at year end:	
Cash and cash equivalents, restricted cash and cash equivalents, investments, and restricted investments	$ 54,644,175
Receivables, net	722,001
Notes receivable held for sale	337,450
Notes receivable	114,548,456
Total financial assets	170,252,082
Less amounts not available to be used within one year:	
Financial assets subject to donor restrictions in certain programs	(15,253,877)
Financial assets subject to donor restrictions in specific geographies	(10,489,225)
Receivables due after one year, net	(115,210)
Amounts set aside for reserves	(1,610,025)
Notes receivable due after one year, net	(80,398,494)
Investments	(50,000)
Notes payable - financial assets subject to pay down	(10,742,188)
Financial assets not available to be used within one year	(118,659,019)
Financial assets available to meet cash needs for general expenditures within one year	$ 51,593,063

Note 3. Liquidity and Availability (Continued)

Housing Trust has various sources of liquidity at its disposal, including cash and cash equivalents, investments, and lines of credit. See Note 9 for information about Housing Trust's lines of credit. The organization has a policy to maintain available cash and short-term investments to meet 90 days of normal operating expenses, which are, on average, approximately $1,250,000. Cash in excess of daily requirements is invested in various short-term investments with maturities designed to meet obligations as they come due.

Housing Trust management and its Board committees regularly monitor its financial position. It generally expects to repay notes payable when they come due with proceeds from maturing notes receivable. As Housing Trust continues to grow it will also potentially refinance the debt with either new loans from the same lender or find additional sources. Interest payments on notes payable are made from income earned on notes receivable.

Housing Trust monitors amounts available for general expenditures from cash and cash equivalents and investments and identifies amounts as available for operations. The difference between available for operations and financial assets available for general expenditures included in the liquidity table above, represents financial assets at a point in time, June 30, 2019, whereas the liquidity table includes amounts expected to be available over the next year. The difference in financial assets available primarily relates to notes receivable that are expected to be collected in the next 12 months. The amount available for operations is made of the following at June 30, 2019:

Cash and cash equivalents	$ 37,858,690
Restricted cash and cash equivalents	971,549
Restricted investments	1,801,864
Investments	14,012,072
Total	54,644,175
Less amount not available to be used for operations:	
Cash and cash equivalents to support program net asset restrictions	(34,673,208)
Cash and cash equivalents with time usage restrictions	(455,098)
Restricted cash and cash equivalents	(971,549)
Restricted investments	(1,801,864)
Cash designated for loan loss reserve	(1,610,025)
Total cash and equivalents and investments not available for operations	(39,511,744)
Cash and equivalents and investments available for operations	$ 15,132,431

Note 4. Investments

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:

	2019				2018			
Description	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Domestic fixed income	$ -	$ 5,618,641	$ -	$ 5,618,641	$ -	$ 2,883,867	$ -	$ 2,883,867
Domestic equity	3,285,706	-	-	3,285,706	1,394,860	-	-	1,394,860
International equity mutual funds	85,642	-	-	85,642	819,102	-	-	819,102
International fixed income	-	-	77,280	77,280	-	77,196	-	77,196
Total investments at fair value	3,371,348	5,618,641	77,280	9,067,269	2,213,962	2,961,063	-	5,175,025
Certificates of deposit	-	-	-	6,746,667	-	-	-	2,995,474
Total investments	$ 3,371,348	$ 5,618,641	$ 77,280	$ 15,813,936	$ 2,213,962	$ 2,961,063	$ -	$ 8,170,499

Net investment return on the consolidated statements of activities consist of the following for the years ended June 30:

	2019	2018
Interest	$ 381,014	$ 81,010
Dividends	587,509	320,651
Unrealized and realized gains	179,120	242,050
Investment management fees	(39,571)	(34,637)
	$ 1,108,072	$ 609,074

Note 5. Receivables

Receivables are summarized as follows at June 30:

	2019	2018
Contributions:		
Restricted for programs	$ 187,720	$ 74,000
Unrestricted contributions	187,500	310,742
Less discount on contributions	(9,790)	(9,790)
Total contributions receivable	365,430	374,952
Other receivables	356,571	159,319
Less allowance for doubtful accounts	-	(2,000)
Total receivables	$ 722,001	$ 532,271

Contributions expected to be received within one year have not been discounted. Contributions expected to be received in one to five years of $125,000 have been discounted at 2.73%. Contributions receivable are unsecured.

Note 6. Notes Receivable

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

	2019	2018
Homebuyer programs:		
Closing Cost Assistance Program (CCA) (1)	$ 2,665,713	$ 2,908,063
Mortgage Assistance Program (MAP) (2)	1,693,451	1,960,396
Equity Share Co-Investment (ESCO) (3)	183,756	183,756
Gap Assistance Program (GAP) (1)	1,379,728	1,495,003
Homebuyer Empowerment Loan Program (HELP) (4)	439,800	146,100
NSP2 Purchase Assistance Loan (PAL) (1)	1,176,370	1,313,370
Neighborhood Houseing Services (NHS) Portfolio:		
Contributed deferred loans (5)	3,008,830	3,350,718
Contributed amortizing loans (5)	169,808	258,862
Less discount on contributed loans (5)	(217,770)	(243,957)
Purchased amortizing loans (6)	210,787	154,801
Less discount on purchased loans (6)	(170,180)	(108,195)
	10,540,293	11,418,917
Multi-family programs (7):		
Affordable housing developer loans:		
Short-term loan program	74,913,928	45,078,367
Term loan program	12,370,651	1,771,640
Long-term deferred loan program	15,180,708	16,820,634
	102,465,287	63,670,641
Gross notes receivable	113,005,580	75,089,558
Less allowance for loan losses	(3,646,500)	(2,380,000)
Net notes receivable	109,359,080	72,709,558
Less current portion	(34,102,636)	(22,064,329)
Long-term portion	$ 75,256,444	$ 50,645,229

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 6. Notes Receivable (Continued)

Housing Trust's homebuyer portfolios and programs are as follows:

(1) CCA, GAP, PAL - portfolios that consist of loans up to $95,000, 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 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 - portfolio that consists of 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 mortgage or upon default of the terms of the Housing Trust loan, whichever occurs first.

(3) ESCO – portfolio of down payment loans in amounts up to $75,000, secured by deeds of trust. ESCO loans are 15-year deferred loans. At maturity, principal plus a share of the home's appreciation are due. Housing Trust is entitled to the lesser of 9.5% or a share of the house appreciation when the loan is settled, and recognizes the 9.5% interest on an annual basis as long as its share of house appreciation is more.

(4) HELP – this program provides down payment assistance for up to half a buyer's down payment (or 10% 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.

(5) 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 between 2% and 3%. 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% and 8%. These loans begin amortizing after five years.

    These notes were recorded at fair value on the contribution date. The fair value, using Level 3 unobservable inputs, was $490,073.

(6) 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%.

    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 $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 6. 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.

(7) 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.

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

	2019		
	Homebuyer Program Allowance	Multi-Family Program Allowance	Total
Balance, beginning of year	$ 580,000	$ 1,800,000	$ 2,380,000
Provision for loan losses	-	1,286,000	1,286,000
Recoveries	-	-	-
Write-offs	(19,500)	-	(19,500)
Balance, end of year	$ 560,500	$ 3,086,000	$ 3,646,500
Ending balance:			
individually evaluated for impairment	$ 15,000	$ -	$ 15,000
Ending balance:			
collectively evaluated for impairment	545,500	3,086,000	3,631,500
	$ 560,500	$ 3,086,000	$ 3,646,500
Total loans:			
Ending balance:			
individually evaluated for impairment	$ 15,000	$ -	$ 15,000
Ending balance:			
collectively evaluated for impairment	10,525,293	102,465,287	112,990,580
	$ 10,540,293	$ 102,465,287	$ 113,005,580

Note 6. Notes Receivable (Continued)

	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

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:

	2019	2018
Pass	$ 102,465,287	$ 63,670,641

Note 6. Notes Receivable (Continued)

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

Years ending June 30:	
2020	$ 33,921,927
2021	40,285,031
2022	-
2023	-
2024	1,316,683
Thereafter	26,941,646
	$ 102,465,287

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

	2019			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Impaired loans:				
Homebuyer	$ 15,000	$ 15,000	$ 15,000	$ 15,000

	2018			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Impaired loans:				
Homebuyer	$ 15,000	$ 15,000	$ -	$ 40,678

For 2019 and 2018, interest income recognized on impaired loans was not significant.

There were no loans modified as TDRs as of June 30, 2019 or 2018.

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 2019			
Description	Total	Level 1	Level 2	Level 3
Impaired loans	$ -	$ -	$ -	$ -

Note 6. Notes Receivable (Continued)

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

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:

	2019				
				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	$ 10,540,293	$ 15,000	$ 560,500	$ 15,000	$ -
Multi-family programs:					
Funded by Affordable Housing Growth Fund LP (AHGF)	8,864,016	-	443,201	-	-
Non-real estate secured	8,927,335	-	627,913	-	-
Long-term deferred loan program	15,235,856	-	304,718	-	-
Real estate secured	69,438,080	-	1,710,168	-	-
	102,465,287	-	3,086,000	-	-
Total portfolio	$ 113,005,580	$ 15,000	$ 3,646,500	$ 15,000	$ -

Note 6. Notes Receivable (Continued)

	2018				
				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	$ 11,418,917	$ 15,000	$ 580,000	$ 15,000	$ -
Multi-family programs:					
Funded by 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 7. Furniture and Equipment

Furniture and equipment are summarized as follows at June 30:

	2019	2018
Office equipment	$ 106,804	$ 90,887
Software	52,889	52,889
Furniture and fixtures	167,824	163,643
Leasehold improvements	26,998	19,211
	354,515	326,630
Less accumulated depreciation and amortization	(163,957)	(99,205)
Total furniture and equipment, net	$ 190,558	$ 227,425

Depreciation and amortization charged to expense was $64,750 and $32,790 for the years ended June 30, 2019 and 2018, respectively.

Note 8. Nonrecourse Capital from Third Parties

Housing Trust enters into Loan Pooling Agreements to finance loans to affordable housing developers 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 nonrecourse with the exception of a required loan loss reserve in the Affordable Housing Growth Fund described below. Housing Trust's loan pools outstanding are as follows at June 30:

	2019	2018
Affordable Housing Growth Fund (AHGF) (1)	$ 7,142,877	$ 491,968
2015 Loan Fund - Tranche I (2)	2,954,762	-
2015 Loan Fund - Tranche II (2)	2,758,148	3,772,480
Monterey Bay Housing Trust (3)	64,364	47,942
	12,920,151	4,312,390
Less current portion	(2,821,212)	(3,182,869)
Long-term portion	$ 10,098,939	$ 1,129,521

(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% 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 $443,201 and $250,000 at June 30, 2019 and 2018, respectively, 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 the 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.

(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 with the remaining amount funded by Housing Trust. Loans made from these funds will largely 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.

Note 8. Nonrecourse Capital from Third Parties (Continued)

(4) In May 2019, Housing Trust signed a Memorandum of Understanding with the Santa Rosa Metro Chamber stating their mutual intent to enter into a pooling agreement in order to raise additional capital to lend to multi-family affordable housing developers in Sonoma County. The pooling agreement will entail Santa Rosa Metro Chamber raising at least $1 million and the total loan pool commitment is to be $2 million. No loans had been made using this fund as of June 30, 2019.

Housing Trust is responsible for monitoring and receiving monthly payments from the borrowers. Heritage Bank acts as Administrative Agent for AHGF and the 2015 Loan Fund tranches I and II. 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 nonrecourse capital, other than the 5% loan loss reserve, is not required to be repaid if the $12,920,151 and $4,312,390 as of June 30, 2019 and 2018, respectively, of corresponding notes receivable within the multi-family program in Note 6 are not repaid.

Note 9. Notes Payable

Notes payable are unsecured and consist as follows:

	2019	2018
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 $31,000 and $23,500 in 2019 and 2018, respectively.	$ 1,550,000	$ 1,550,000
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 $136,385 and $139,795 for 2019 and 2018, respectively.	4,500,000	4,500,000
Community Impact 5-year notes, bearing interest of 1.50%, paid semiannually, to be repaid in full from April 2022 to October 2023. (1) Interest expense was $379,480 and $168,541 in 2019 and 2018, respectively.	36,500,000	15,000,000
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 $380,875 and $186,002 for 2019 and 2018, respectively.	25,600,000	15,600,000
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 September 2021 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 $77,500 and $77,028 for 2019 and 2018, respectively.	7,750,000	7,750,000
Outstanding revolving line of credit:		
Revolving lines of credit with a maximum amount of borrowings of $35,000,000 and $10,000,000 in 2019 and 2018, respectively, bearing interest of 3.00%. Interest expense was $0 and $26,647 in 2019 and 2018, respectively.	-	-
	75,900,000	44,400,000
Less current portion	(1,700,000)	-
Less unamortized loan fees	(20,913)	(24,524)
Long-term portion	$ 74,179,087	$ 44,375,476

Note 9. Notes Payable (Continued)

(1) In April 2017, Housing Trust offered for sale to accredited investors 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%, paid semiannually, and Series B, 10-year note bearing interest rate at 2.00%, paid semiannually, are unsecured. The note series was extended in 2018 to C through F. 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, 2019 and 2018, $36,500,000 and $15,000,000 Series A through E notes, respectively, have been sold.

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

Years ending June 30:	
2020	$ 1,700,000
2021	350,000
2022	17,500,000
2023	2,350,000
2024	30,750,000
Thereafter	23,250,000
	$ 75,900,000

Housing Trust has a revolving line of credit agreement with Charles Schwab Bank whereby it may borrow up to $10,000,000. Interest on any outstanding balance is payable quarterly at the greater of three-month LIBOR plus 1.75% or 3% per annum, which was 3% at June 30, 2019 and 2018. The line of credit availability expires on November 15, 2019 and must be renewed. Its final maturity is November 16, 2023. There was no outstanding balance under this line of credit at June 30, 2019 or 2018.

Note 10. 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 $624,836 and $358,668 for the years ended June 30, 2019 and 2018, respectively.

As of June 30, 2019, Housing Trust had related-party notes receivable of $535,000 and related-party notes payable of $20,250,000.

Note 11. Grants

Housing Trust provides grants to those transitioning from homelessness to permanent housing through its Finally Home security deposit program. In addition, Housing Trust works with government agencies such as the county of Santa Clara to underwrite and grant to organizations providing safety net to those experiencing homelessness or in need of supportive services. Housing Trust has also made planning grants to homeowners to kick start their ADUs, has a small scholarship grant program and occasionally donates to polling and other efforts to support local measures to raise funding for affordable housing. Such grants and contributions totaled $724,417 and $800,023 in 2019 and 2018, respectively.

Note 12. Conditional Contributions

The balance in conditional contributions represents funds received but not lent as of June 30, 2019 and 2018. Conditional contributions consists of the following:

	2019	2018
Santa Clara County - SNCI (1)	$ 211,650	$ 532,607
Santa Clara County - SHF (2)	-	2,194,725
Chase - ProNeighborhoods Genesis (3)	1,483,500	1,250,000
Total conditional contributions	1,695,150	3,977,332

(1) 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.

(2) Santa Clara County (the County) and Housing Trust entered into an Memorandum of Understanding (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 expired on June 30, 2019.

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.

(3) In October 2017, Housing Trust signed a 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 re-granted half of the $3.5 million in funds it received in a ProNeighborhoods grant from JP Morgan Chase. The two organizations are cooperating 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 the remaining $250,000 in 2019 and recorded the full grant as a conditional contribution. In 2019 $16,500 of the capital was granted as planning grants to homeowners looking to build an ADU on their property.

Note 13. Net Assets with Donor Restrictions

The net assets with donor restrictions are for the following purposes or periods at June 30:

	2019			
	June 30, 2018	Contributions	Released from Restrictions	June 30, 2019
General lending programs	$ 3,633,744	$ 150,000	$ (1,768,249)	$ 2,015,495
Homebuyer programs	7,887,671	148,821	(191,951)	7,844,541
NSP2	7,578,393	322,801	(54,078)	7,847,116
Affordable Multi-Family Rental Program and Homeless/Special Needs Program	17,170,883	6,894,725	(2,025,953)	22,039,655
Finally Home and Rehabilitation program	55,810	287,541	(320,630)	22,721
Time restrictions	676,666	239,500	(461,068)	455,098
	$ 37,003,167	$ 8,043,388	$ (4,821,929)	$ 40,224,626

	2018			
	June 30, 2017	Contributions	Released 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

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. Net assets with donor restrictions include a total of $14,682,749 and $21,824,058 of disbursed funds with secondary-use restrictions as of June 30, 2019 and 2018, respectively.

Note 14. 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 $100,605 and $81,570 to the Plan during 2019 and 2018, respectively.

Note 15. 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, 2019 and 2018 was $225,361 and $153,083, respectively. The following represents the future minimum lease payments:

Years ending June 30:	
2020	$ 249,087
2021	256,559
2022	264,256
2023	272,184
2024	69,913
Thereafter	-
	$ 1,111,999

Note 16. Commitments and Contingencies

Housing Trust had undisbursed loan commitments totaling $10,246,410 and $24,865,224 as of June 30, 2019 and 2018, 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 3% 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, 2019.

Note 17. Subsequent Events

Subsequent to year-end, Housing Trust board approved and Housing Trust offered for sale up to $25,000,000 in Community Impact Notes (Notes) which are intended largely to fund its multi-family lending program. The Notes, Series 1, two-year note bearing interest of 1.25%, Series 2, five-year note bearing interest of 1.50%, paid semiannually, and Series 3, 10-year note bearing interest rate at 2.00%, paid semiannually, are senior debt and unsecured.

In July 2019, Housing Trust agreed upon an extension of a subordinated note payable with the associated financial institution. The maturity date was extended from August 2019 to August 2024 with no changes to other terms and conditions of the agreement. The maturity date of the note payable was presented with the extension in Note 9.

In July 2019, Google and Housing Trust announced that Google had agreed to invest $50,000,000 in its T.E.C.H. Fund in the form of five-year notes as part of a Note Purchase Agreement dated July 31, 2019. On August 22, 2019 Google purchased a $5,000,000 Series G Community Impact Note bearing interest at 1.5% and maturing July 31, 2024.

Note 17. Subsequent Events (Continued)

On August 27, 2019 Housing Trust drew the first advance, in the amount of $2,100,000 on its bond loan agreement with Opportunity Finance Network, a qualified issuer, as part of the Bond Guarantee Program of the CDFI Fund. The advance was used to fund a long-term multi-family loan and will be repaid through amortized payments over the 10-year life of the loan from the payments to the borrower. This debt is secured by the secondary loan collateral as well as an 5% overcollateralization of cash and a risk pool set aside of 3% of the loan proceeds.