

Housing Trust Silicon Valley

Consolidated Financial Report
June 30, 2021

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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 statements of financial position as of June 30, 2021 and 2020, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend 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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, Housing Trust Silicon Valley has elected to change its method of cash flow presentation from the direct method to the indirect method for the year ended June 30, 2021, and applied the indirect method retroactively to the year ended June 30, 2020. Our opinion is not modified with respect to this matter.

RSM VS LLP

San José, California
October 18, 2021

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

Consolidated Statements of Financial Position
June 30, 2021 and 2020

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 64,849,080	\$ 39,149,018
Restricted cash and cash equivalents	8,624,522	5,731,636
Investments (Note 4)	6,370,502	6,663,516
Receivables, net (Note 5)	10,764,749	1,645,038
Prepaid expenses	186,613	191,048
Notes receivable held for sale	894,200	432,480
Notes receivable (Note 6)	62,068,930	56,189,704
Interest receivable	207,281	159,528
Total current assets	153,965,877	110,161,968
Notes receivable, net of current portion (Note 6)	95,897,896	112,478,910
Receivables, net of current portion (Note 5)	-	54,371
Deferred interest receivable	990,108	1,063,943
Furniture and equipment, net (Note 7)	135,230	197,679
Total assets	\$ 250,989,111	\$ 223,956,871
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 316,878	\$ 433,422
Accrued expenses	709,098	849,069
Conditional contributions (Note 12)	9,883,136	215,909
Nonrecourse capital from third parties - current portion (Note 8)	11,984,236	7,600,243
Notes payable - current portion (Note 9)	19,028,178	350,000
Funds held for others	3,452,554	1,485,214
Total current liabilities	45,374,080	10,933,857
Nonrecourse capital from third parties, net of current portion (Note 8)	5,594,756	12,564,730
Notes payable, net of current portion (Note 9)	95,352,386	110,613,325
Total liabilities	146,321,222	134,111,912
Commitments and contingencies (Notes 15 and 16)		
Net assets:		
Without donor restrictions	52,385,252	40,154,494
With donor restrictions (Note 13)	52,282,637	49,690,465
Total net assets	104,667,889	89,844,959
Total liabilities and net assets	\$ 250,989,111	\$ 223,956,871

See notes to consolidated financial statements.

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

Consolidated Statement of Activities
Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Net financial income:			
Interest income on loans	\$ 6,394,985	\$ 143,921	\$ 6,538,906
Loan origination fees	756,718	-	756,718
Less interest expense	(1,913,020)	-	(1,913,020)
Less (credit) provision on loan losses	918,500	-	918,500
Total net financial income	6,157,183	143,921	6,301,104
Fees:			
Contract program revenue	1,812,800	-	1,812,800
Loan servicing fees	261,858	-	261,858
Other	33,039	-	33,039
Total fees	2,107,697	-	2,107,697
Contributions	166,701	11,005,470	11,172,171
Revenue from special events, net of direct costs	115,870	-	115,870
Net assets released from restrictions (Note 13)	8,559,604	(8,559,604)	-
Investment return, net of fees (Note 4)	1,353,630	2,385	1,356,015
Total	10,195,805	2,448,251	12,644,056
Total support and revenue	18,460,685	2,592,172	21,052,857
Expenses:			
Program services	3,955,137	-	3,955,137
Management and general	1,914,509	-	1,914,509
Fundraising	360,281	-	360,281
Total expenses	6,229,927	-	6,229,927
Change in net assets	12,230,758	2,592,172	14,822,930
Net assets, beginning of year	40,154,494	49,690,465	89,844,959
Net assets, end of year	<u>\$ 52,385,252</u>	<u>\$ 52,282,637</u>	<u>\$ 104,667,889</u>

See notes to consolidated financial statements.

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

Consolidated Statement of Activities
Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Net financial income:			
Interest income on loans	\$ 5,416,951	\$ 162,363	\$ 5,579,314
Loan origination fees	1,324,741	-	1,324,741
Less interest expense	(1,604,052)	-	(1,604,052)
Less (credit) provision on loan losses	(2,975,465)	-	(2,975,465)
Total net financial income	2,162,175	162,363	2,324,538
Fees:			
Contract program revenue	939,565	-	939,565
Loan servicing fees	468,363	-	468,363
Other	25,219	-	25,219
Total fees	1,433,147	-	1,433,147
Contributions	1,305,072	13,570,757	14,875,829
Revenue from special events, net of direct costs	327,815	-	327,815
Net assets released from restrictions (Note 13)	4,355,874	(4,355,874)	-
Investment return, net of fees (Note 4)	714,780	88,593	803,373
Total	6,703,541	9,303,476	16,007,017
Total support and revenue	10,298,863	9,465,839	19,764,702
Expenses:			
Program services	2,908,562	-	2,908,562
Management and general	1,530,841	-	1,530,841
Fundraising	541,195	-	541,195
Total expenses	4,980,598	-	4,980,598
Change in net assets	5,318,265	9,465,839	14,784,104
Net assets, beginning of year	34,836,229	40,224,626	75,060,855
Net assets, end of year	<u>\$ 40,154,494</u>	<u>\$ 49,690,465</u>	<u>\$ 89,844,959</u>

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, 2021

	Program Services				Supporting Services				
	Homebuyer and ADU Programs	Multi-Family Programs	NSP2, Safety Net and Homeless Prevention	Policy and Education	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries and benefits	\$ 1,347,059	\$ 1,325,174	\$ 4,749	\$ 12,325	\$ 2,689,308	\$ 1,207,499	\$ 280,161	\$ 1,487,660	\$ 4,176,969
Occupancy and office expense	126,922	93,907	488	488	221,804	134,619	28,561	163,180	384,984
Accounting, legal and professional fees	173,145	373,208	309	48,309	594,972	460,103	32,672	492,775	1,087,747
Marketing and communication	8,063	3,401	6	6	11,475	829	6,627	7,456	18,931
Donations/sponsorships	46,555	42,913	57	57	89,580	94,777	5,522	100,299	189,880
Grants awarded (Note 11)	-	144,091	152,980	-	297,071	-	-	-	297,071
Depreciation and amortization	28,925	21,769	116	116	50,927	16,681	6,738	23,419	74,346
Total expenses before (credit) provision on loan losses, interest expense and costs for special events	1,730,669	2,004,463	158,705	61,301	3,955,137	1,914,509	360,281	2,274,790	6,229,927
(Credit) provision on loan losses	(93,500)	(825,000)	-	-	(918,500)	-	-	-	(918,500)
Interest expense	-	1,913,020	-	-	1,913,020	-	-	-	1,913,020
Costs for special events	-	-	-	-	-	-	1,485	1,485	1,485
Total expenses	\$ 1,637,169	\$ 3,092,483	\$ 158,705	\$ 61,301	\$ 4,949,657	\$ 1,914,509	\$ 361,766	\$ 2,276,275	\$ 7,225,932

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, 2020

	Program Services				Supporting Services				
	Homebuyer and ADU Programs	Multi-Family Programs	NSP2, Safety Net and Homeless Prevention	Policy and Education	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries and benefits	\$ 944,143	\$ 757,824	\$ 34,758	\$ 47,965	\$ 1,784,691	\$ 950,149	\$ 340,480	\$ 1,290,629	\$ 3,075,320
Occupancy and office expense	150,764	84,532	3,409	1,357	240,062	113,394	25,462	138,856	378,918
Accounting, legal and professional fees	84,396	165,098	598	48,231	298,323	389,463	75,668	465,131	763,454
Marketing and communication	5,598	1,344	32	13	6,987	1,511	80,157	81,668	88,656
Other operating expenses	54,739	46,648	544	40,217	142,148	59,219	13,688	72,907	215,055
Grants awarded (Note 11)	9,000	9,091	364,718	-	382,809	-	-	-	382,809
Depreciation and amortization	33,394	19,060	778	310	53,542	17,104	5,740	22,844	76,386
Total expenses before (credit) provision on loan losses, interest expense and costs for special events	1,282,036	1,083,598	404,836	138,093	2,908,562	1,530,841	541,195	2,072,035	4,980,597
(Credit) provision on loan losses	111,464	2,864,000	-	-	2,975,464	-	-	-	2,975,464
Interest expense	-	1,604,052	-	-	1,604,052	-	-	-	1,604,052
Costs for special events	-	-	-	-	-	-	67,220	67,220	67,220
Total expenses	\$ 1,393,500	\$ 5,551,650	\$ 404,836	\$ 138,093	\$ 7,488,078	\$ 1,530,841	\$ 608,414	\$ 2,139,255	\$ 9,627,333

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, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 14,822,930	\$ 14,784,104
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	74,346	76,386
Amortization of debt issuance costs	17,239	(108,143)
Change in deferred fees and costs	(9,999)	122,491
(Credit) provision on loan losses	(918,500)	2,975,464
Gain on investments	(1,226,242)	(19,445)
Loss on disposals of equipment	1,003	-
Noncash interest income	(4,212,209)	(3,921,217)
Noncash fee income	(224,555)	(1,019,551)
Noncash grant expense	144,091	9,091
Changes in operating assets and liabilities:		
Amortization of discount on notes receivable	(65,008)	(81,934)
Receivables	(9,113,093)	(977,408)
Accrued interest receivable	73,835	(123,091)
Prepaid expenses	14,434	(88,333)
Accounts payable and accrued expenses	(256,515)	258,884
Conditional contributions	9,667,227	(1,479,241)
Origination of notes receivable held for sale	(1,779,050)	(1,647,010)
Proceeds from sale of notes receivable	5,212,120	10,079,288
Proceeds from funds held for others	1,967,340	1,485,213
Net cash provided by operating activities	14,189,394	20,325,548
Cash flows from investing activities:		
Proceeds from the sale of investments	4,833,036	12,383,087
Purchases of investments	(3,313,779)	(3,213,221)
Purchases of furniture and equipment	(12,900)	(83,507)
Notes receivable disbursed	(38,254,334)	(86,910,939)
Collection of notes receivable	50,337,512	21,112,243
Net cash provided by (used in) investing activities	13,589,535	(56,712,337)
Cash flows from financing activities:		
Proceeds from long-term debt	3,750,000	36,892,380
Repayments on long-term debt	(350,000)	(1,700,000)
Proceeds from secured borrowings	4,332,338	6,888,073
Proceeds from loan pool participants	3,485,694	3,350,851
Payments to loan pool participants	(10,404,013)	(2,994,100)
Net cash provided by financing activities	814,019	42,437,204
Net increase in cash and cash equivalents and restricted cash and cash equivalents	28,592,948	6,050,415
Cash and cash equivalents and restricted cash and cash equivalents, beginning of year	44,880,654	38,830,239
Cash and cash equivalents and restricted cash and cash equivalents, end of year	\$ 73,473,602	\$ 44,880,654
Cash and cash equivalents	\$ 64,849,080	\$ 39,149,018
Restricted cash and cash equivalents	8,624,522	5,731,636
	\$ 73,473,602	\$ 44,880,654

See notes to consolidated financial statements.

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

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 believes safe, stable, affordable housing opens the door to better living for everyone. 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 throughout the greater Bay Area. Housing Trust's financial expertise and extensive private and public sector partnerships ensures it makes 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 Santa Clara County. There is roughly \$20 million of capital available to originate these loans in funds from Measure A which was passed in 2016.
- 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. Housing Trust provides acquisition, predevelopment, bridge, term, construction and permanent financing.

In February 2020, Housing Trust entered into a grant agreement with Apple Inc. (Apple). The grant's mission is to support Housing Trust's work in the greater Bay Area with the purpose of deploying new solutions, accelerating timelines and housing families faster using gap and other types of loans to affordable housing developers. Apple has committed \$150 million to be distributed in two tranches from the date of the agreement February 3, 2020 to December 31, 2029. These grant awards will only be awarded upon Housing Trust meeting specific milestones as stated in the agreement subject to Apple's satisfaction. The grant awards are recorded in contributions on the consolidated statements of activities. Housing Trust recognized \$7,901,336 and \$10,737,693 in contributions with donor restrictions under this agreement during the years ended June 30, 2021 and 2020, respectively. The milestones represent barriers in accordance with Accounting Standards Update (ASU) 2018-08, and therefore at June 30, 2021 and 2020, there is a remaining conditional contribution amount of \$131,360,971 and \$139,262,307, respectively.

In March 2020, Housing Trust entered into a services agreement with Google Endeavor, LLC, a wholly owned subsidiary of Google LLC (Google). Google has committed \$50 million to create a separate Launch Initiative fund, an affordable housing fund aimed to accelerate the start-up and preservation of homes. Launch Initiative is a strategic partnership which enhances Housing Trust's lending capacity and provides Housing Trust and Google opportunities to invest in a broader range of affordable housing projects. Housing Trust's responsibilities include sourcing, underwriting, closing and servicing loans, taking at least a 10% participation in the loans and providing management services for the fund including accounting. Services revenue is included in the contract program revenue on the consolidated statements of activities. As the servicer, at June 30, 2021 and 2020, Housing Trust holds \$3,452,554 and \$1,485,214, respectively, in cash belonging to Google which is included as restricted cash and cash equivalents, and the associated liability as funds held for others on the consolidated statements of financial position. As of June 30, 2021, the full \$50 million had been committed to loans and the fund size increased to \$63 million.

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

Notes to Consolidated Financial Statements

Note 1. Organization and Nature of Activities (Continued)

- NSP2, Safety Net and Homeless Prevention 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.
- Policy and Education - 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 and Monterey Bay areas.
- 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 has offered a planning grant to homeowners looking to create an ADU and soft launched its construction loan program in fiscal 2021. 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 has received Financial Assistance Awards, a Bond Guarantee Program, and a Capital Magnet Fund Grant from the CDFI Fund. CDFIs are required to match Financial Assistance Awards dollar-for-dollar with nonfederal funds. The Bond Guarantee Program requires a pledge of 105% overcollateralization by CDFIs to draw funds from the program. The Capital Magnet Fund gives out grants to CDFIs on the condition that they meet leveraging requirements from the projects that the funds are invested into.

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 2021.

Note 2. 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, which is inactive. 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.

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

Notes to Consolidated Financial Statements

Note 2. Significant Accounting Policies (Continued)

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.

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. Housing Trust's 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, bank loans and lines of credit, its Community Impact Note, and other notes arising from the T.E.C.H. Fund campaign, the Launch Initiative (Google), and Apple Bay Area Housing Fund, 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 is 146% in fiscal year 2021 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 of \$250,000. Housing Trust has not experienced any losses in such accounts.

Restricted cash and cash equivalents: As of June 30, 2021 and 2020, restricted cash and cash equivalents are held for amounts related to the ongoing CalHome program, Bond Guarantee Program escrow and risk share pool accounts, and the Google agreement.

Receivables: Receivables include contribution and other earned 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, 2021 and 2020, Housing Trust has recorded an allowance for doubtful accounts of \$5,000 and \$7,000, respectively.

**Housing Trust Silicon Valley
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Notes to Consolidated Financial Statements

Note 2. Significant Accounting Policies (Continued)

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. Housing Trust accounts for contributions as support without donor restrictions or support with donor restrictions, depending on the absence or existence of donor-imposed restrictions as applicable. All contributions with donor-imposed restrictions are reported as an increase in net assets with donor restrictions. 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 contributions are computed using interest rates for the year in which the promise was received which considers market and credit risk as applicable. Amortization of the discounts, if any, is included in contribution revenue.

Conditional contributions are not recognized as revenue until the conditions are substantially met. A contribution is conditional if a barrier must be overcome before Housing Trust is entitled to the asset and a right of return or release exists. Conditional promises to give are recognized as revenue when the barriers outlined by the donor have been 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).

Contributed services are stated at their estimated fair value if they are ordinarily purchased and are of a specialized nature. Contributed services were approximately \$10,000 and \$13,000 for fiscal years ended June 30, 2021 and 2020, respectively, are included in contributions on the consolidated statements of activities, 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 on 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.

**Housing Trust Silicon Valley
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Notes to Consolidated Financial Statements

Note 2. Significant Accounting Policies (Continued)

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.

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.

**Housing Trust Silicon Valley
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Notes to Consolidated Financial Statements

Note 2. Significant Accounting Policies (Continued)

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, 2021 and 2020, 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 consolidated statements 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 less estimated costs to sell 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.

**Housing Trust Silicon Valley
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Notes to Consolidated Financial Statements

Note 2. Significant Accounting Policies (Continued)

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.

In April 2020, the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, and Consumer Financial Protection Bureau issued a revised Interagency Statement on Loan Modifications by Financial Institutions Working with Customers Affected by the coronavirus, which had previously been issued in March 2020. The revised statement provides guidance that modifications meeting certain criteria do not need to be classified as TDRs. Such criteria includes payment deferrals or extensions of repayment terms, of six months or less that are insignificant.

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 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.

**Housing Trust Silicon Valley
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Notes to Consolidated Financial Statements

Note 2. Significant Accounting Policies (Continued)

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 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.

Loan servicing fees: Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned.

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.

Housing Trust occasionally sells participation loans to third parties that do not meet the criteria to be accounted for as sales in accordance with Accounting Standards Codification (ASC) 860, Transfers and Servicing. As a result, the participation loans are accounted for as secured borrowings, whereby Housing Trust records cash received from the transferee and records a liability to repay the cash to the transferee. The transferees have no recourse to Housing Trust for failure of the underlying borrowers to pay amounts contractually due. The outstanding balance of participation loans sold that are accounted for as secured borrowings is \$11,095,411 and \$6,888,071 as of June 30, 2021 and 2020, respectively, and is included in nonrecourse capital from third parties on the consolidated statements of financial position.

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.

Housing Trust Silicon Valley
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Notes to Consolidated Financial Statements

Note 2. 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 2017 through 2020 are subject to examination by regulatory agencies, generally for three years and four years after they were filed federal and state, respectively.

Contract program revenue: Program services fees contracts are reciprocal agreements and Housing Trust recognizes this revenue in accordance with the five-step model under the guidance in ASU 2014 09, *Revenue from Contracts with Customers (Topic 606)*, which requires 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 as follows:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when or as performance obligations are satisfied

Program services fees revenue is recognized as services are provided by Housing Trust to its customers. In some cases, Housing Trust's contracts with customers include multiple performance obligations that are not fulfilled simultaneously. When this occurs, the transaction price is allocated on a relative stand-alone selling price (SSP) basis to each performance obligation. Housing Trust determines SSP based on observable selling prices of its products. Program services fees subject to ASC 606 were \$753,548 and \$721,356 for the years ended June 30, 2021 and 2020, respectively, and are included in contract program revenue on the consolidated statements of activities. These revenues are recognized over a period of time. Contract program revenue also includes \$1,059,252 and \$0 for the years ended June 30, 2021 and 2020, respectively, that primarily consists of one-time loan closing fees and incentive fees that are recognized as revenue when the loans are closed and transferred under the services agreement to Google. Such revenue is scoped out of ASC 606.

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 are allocated based on estimates of time and effort of direct supervision or conduct of the activity. All other expenses are allocated based on headcount.

Reclassifications: Certain amounts previously reported in the 2020 consolidated financial statements were reclassified to conform to the 2021 presentation for comparative purposes with no impact to previously reported net assets and change in net assets.

**Housing Trust Silicon Valley
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Notes to Consolidated Financial Statements

Note 2. Significant Accounting Policies (Continued)

Presentation of cash flows: On July 1, 2020, Housing Trust elected to change its the method of cash flow presentation from the direct method to indirect method. The consolidated cash flows statement for the year ended June 30, 2020 has been adjusted to apply the indirect method retroactively.

Subsequent events: Housing Trust has evaluated subsequent events through October 18, 2021, the date on which the consolidated financial statements were available to be issued.

Recent accounting pronouncements not yet adopted: In June 2020, the Financial Accounting Standards Board (FASB) issued ASU 2020-05, *Leases (Topic 842): Effective Dates for Certain Entities*, which delays the effective date of ASU 2016-02 for nonpublic entities that have not yet issued their financial statements reflecting the adoption, although early adoption continues to be permitted. These ASUs do not change the core principle of the guidance stated in ASU 2016-02. This guidance will be effective for nonpublic entities for fiscal years beginning after December 15, 2021, on a modified retrospective basis and early adoption is permitted.

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. The ASU is effective for Housing Trust as of July 1, 2023. Topic 326 was further revised in April 2019 by ASU 2019-04 and November 2019 by ASU 2019-11 which made various updates to Topic 326 impacting accrued interest, transfers between categories of loans and debt securities, recoveries, and TDRs. Housing Trust is evaluating the impact of these codification updates.

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, 2022. Housing Trust is currently evaluating the impact of adopting this new guidance on its consolidated financial statements.

In November 2018, the FASB issued ASU 2018-18, *Collaborative Arrangements (Topic 808): Clarifying the Interaction Between Topic 808 and Topic 606*. ASU 2018-18 is effective for nonpublic entities for annual periods beginning after December 15, 2021, although early adoption is permitted. Housing Trust is currently evaluating the impact of adopting this new guidance on its consolidated financial statements.

Housing Trust Silicon Valley
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Notes to Consolidated Financial Statements

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, 2021, the following financial assets are available to meet annual operating needs of the 2022 and 2021 fiscal years:

	2021	2020
Financial assets at year end:		
Cash and cash equivalents, restricted cash and cash equivalents, and investments	\$ 79,844,104	\$ 51,544,170
Receivables, net	10,764,748	1,699,409
Notes receivable held for sale	894,200	432,480
Notes receivable	159,164,216	169,892,086
Total financial assets	<u>250,667,268</u>	<u>223,568,145</u>
Less amounts not available to be used within one year:		
Donor restricted net assets not available for operations	(34,099,347)	(23,152,714)
Donor restricted cash and cash equivalents	(36,628,940)	(8,112,532)
Notes receivable, net	(153,735,509)	(163,353,798)
Financial assets not available to be used within one year	<u>(224,463,796)</u>	<u>(194,619,044)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 26,203,473</u>	<u>\$ 28,949,101</u>

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. Housing Trust has a policy to maintain available cash and short-term investments to meet 90 days of normal operating expenses, which are, on average, approximately \$2,000,000. 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. Housing Trust 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 Silicon Valley
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Notes to Consolidated Financial Statements

Note 3. Liquidity and Availability (Continued)

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, 2021, 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:

	2021	2020
Cash and cash equivalents	\$ 64,849,080	\$ 39,149,018
Restricted cash and cash equivalents	8,624,522	5,731,636
Investments	6,370,502	6,663,516
Total	79,844,104	51,544,170
Less amount not available to be used for operations:		
Cash and cash equivalents to support program net asset restrictions	(56,941,022)	(29,053,378)
Cash and cash equivalents with time usage restrictions	(130,795)	(338,530)
Cash and cash equivalents held for others	(3,452,554)	(1,485,214)
Cash designated for loan loss reserve	-	(2,175,025)
Total cash and equivalents and investments not available for operations	(60,524,371)	(33,052,147)
Cash and equivalents and investments available for operations	\$ 19,319,733	\$ 18,492,023

Note 4. Investments

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

Description	2021				2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Domestic fixed income	\$ -	\$ 2,322,758	\$ -	\$ 2,322,758	\$ -	\$ 1,604,233	\$ -	\$ 1,604,233
Domestic equity	3,377,711	-	-	3,377,711	2,574,922	-	-	2,574,922
International equity mutual funds	647,369	-	-	647,369	658,356	-	-	658,356
International fixed income	-	-	22,664	22,664	-	-	99,316	99,316
Total investments at fair value	4,025,080	2,322,758	22,664	6,370,502	3,233,278	1,604,233	99,316	4,936,827
Certificates of deposit	-	-	-	-	-	-	-	1,726,689
Total investments	\$ 4,025,080	\$ 2,322,758	\$ 22,664	\$ 6,370,502	\$ 3,233,278	\$ 1,604,233	\$ 99,316	\$ 6,663,516

Housing Trust Silicon Valley
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Notes to Consolidated Financial Statements

Note 4. Investments (Continued)

A summary of the Level 3 investment activity for the years ended June 30 is as follows:

	2021	2020
Opening balance	\$ 99,316	\$ 77,280
Purchases	-	22,000
Sales	(75,000)	-
Change in value	(1,653)	36
Ending balance	<u>\$ 22,663</u>	<u>\$ 99,316</u>

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

	2021	2020
Interest and dividends	\$ 166,058	\$ 826,677
Unrealized and realized gains	1,226,242	19,445
Investment management fees	(36,285)	(42,749)
	<u>\$ 1,356,015</u>	<u>\$ 803,373</u>

Note 5. Receivables

Receivables are summarized as follows at June 30:

	2021	2020
Contributions:		
With donor restrictions	\$ 10,282,521	\$ 887,693
Without donor restrictions	86,000	240,000
Less discount on contributions	(4,851)	(8,129)
Total contributions receivable	<u>10,363,670</u>	<u>1,119,564</u>
Other receivables	406,079	586,845
Less allowance for doubtful accounts	(5,000)	(7,000)
Total receivables	<u>\$ 10,764,749</u>	<u>\$ 1,699,409</u>

All contributions are due within a year other than \$0 and \$62,500, which were discounted at 2.73% at June 30, 2021 and 2020, respectively. Contributions receivable are unsecured. Contributions receivable with donor restrictions were 98.5% comprised of contributions from two donors at June 30, 2021.

Housing Trust Silicon Valley
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Notes to Consolidated Financial Statements

Note 6. Notes Receivable

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

	2021	2020
Homebuyer programs:		
Legacy Closing Cost Assistance Portfolio (1)	\$ 2,182,518	\$ 2,486,463
Legacy Down Payment Assistance Portfolio (2)	2,706,124	3,832,566
Homebuyer Empowerment Loan Program (3)	462,500	439,800
Neighborhood Housing Services (NHS) Portfolio (4)	2,272,842	2,880,506
Less discount on NHS portfolio (5)	(241,008)	(306,016)
	<u>7,382,976</u>	<u>9,333,319</u>
Multi-family programs (6):		
Affordable housing developer loans:		
Short-term loan program	116,051,392	125,288,772
Term loan program	25,291,140	25,459,120
Long-term deferred loan program	14,900,318	15,164,903
	<u>156,242,850</u>	<u>165,912,795</u>
Gross notes receivable	163,625,826	175,246,114
Less allowance for loan losses	(5,659,000)	(6,577,500)
Net notes receivable	<u>157,966,826</u>	<u>168,668,614</u>
Less current portion	(62,068,930)	(56,189,704)
Long-term portion	<u>\$ 95,897,896</u>	<u>\$ 112,478,910</u>

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. In 2019 to 2021, the preponderance of loans originated for homebuyers has been through its contract with the County of Santa Clara. Housing Trust (Empower Homebuyers) makes loans to homebuyers and sells them to the county quarterly. The county has raised funds through Measure A, 2016 to fund these purchases.

**Housing Trust Silicon Valley
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Notes to Consolidated Financial Statements

Note 6. Notes Receivable (Continued)

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

- (1) Legacy Closing Cost Assistance Portfolio - portfolio that consists of deferred interest loans up to \$30,625, secured by deeds of trust with 0% to 3% simple interest.
- (2) Legacy Down Payment Assistance Portfolio – portfolios that consist of loans up to \$95,000, secured by deeds of trust with interest at a rate of 1% to 1.5% above the interest rate on the related first mortgage or between 0 to 3% simple interest. 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. This portfolio includes 30-year amortizing, 30-year deferred interest loans and several loans that mature after 15 years with interest due based on the shared appreciation model.
- (3) Homebuyer Empowerment Loan Program (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.
- (4) Neighborhood Housing Services Portfolio - 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%. 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 in 2016. The fair value, using Level 3 unobservable inputs, was \$490,073.

- (5) 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 and \$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 ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality.

**Housing Trust Silicon Valley
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Notes to Consolidated Financial Statements

Note 6. Notes Receivable (Continued)

With respect to all deferred loans, 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.

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

- (6) Qualified developers may borrow up to \$1,000,000 for predevelopment and \$15,000,000 for acquisition, and \$10,000,000 for 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 those experiencing homelessness.

Via its Launch Initiative, an off-balance-sheet fund Housing Trust manages on behalf of Google, Housing Trust makes short-term and term loans that often carry lower interest rates to developers. Housing Trust usually participates in each loan it makes via this fund.

- b. Term loans provide permanent financing for stabilized multi-family properties. Terms are between 5 to 30 years. Through its Apple Affordable Housing Fund, in 2021 and 2022 Housing Trust offers low cost, long-term gap loans designed to provide that last piece of financing to projects so as to hasten the commencement of construction. Currently, preference is given to developments that service extremely low-income individuals and families, in particular those experiencing homelessness.
- c. Long-term deferred term loans provide maturities for up to 55 years.

Housing Trust Silicon Valley
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Notes to Consolidated Financial Statements

Note 6. Notes Receivable (Continued)

The following table presents notes receivable outstanding by portfolio segment as of June 30:

	2021	2020
Homebuyer programs	\$ 7,382,976	\$ 9,333,319
Multi-family programs:		
Funded by Affordable Housing Growth Fund LP (AHGF)	-	9,348,838
Unsecured	50,357	333,408
Nonreal estate secured	9,404,886	10,649,122
Long-term deferred loan program	14,973,046	15,228,540
Real estate secured	114,360,569	110,187,914
Nonrecourse	17,453,992	20,164,973
	156,242,850	165,912,795
Total portfolio	\$ 163,625,826	\$ 175,246,114

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

	2021		
	Homebuyer Program Allowance	Multi-Family Program Allowance	Total
Balance, beginning of year	\$ 627,500	\$ 5,950,000	\$ 6,577,500
Provision for loan losses credit	(93,500)	(825,000)	(918,500)
Recoveries	-	-	-
Write-offs	-	-	-
Balance, end of year	\$ 534,000	\$ 5,125,000	\$ 5,659,000
Ending balance:			
individually evaluated for impairment	\$ -	\$ -	\$ -
Ending balance:			
collectively evaluated for impairment	534,000	5,125,000	5,659,000
	\$ 534,000	\$ 5,125,000	\$ 5,659,000
Total loans:			
Ending balance:			
individually evaluated for impairment	\$ -	\$ -	\$ -
Ending balance:			
collectively evaluated for impairment	7,382,976	156,242,850	163,625,826
	\$ 7,382,976	\$ 156,242,850	\$ 163,625,826

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Notes to Consolidated Financial Statements

Note 6. Notes Receivable (Continued)

	2020		
	Homebuyer Program Allowance	Multi-Family Program Allowance	Total
Balance, beginning of year	\$ 560,500	\$ 3,086,000	\$ 3,646,500
Provision for loan losses	111,464	2,864,000	2,975,464
Recoveries	-	-	-
Write-offs	(44,464)	-	(44,464)
Balance, end of year	<u>\$ 627,500</u>	<u>\$ 5,950,000</u>	<u>\$ 6,577,500</u>
Ending balance:			
individually evaluated for impairment	\$ -	\$ -	\$ -
Ending balance:			
collectively evaluated for impairment	627,500	5,950,000	6,577,500
	<u>\$ 627,500</u>	<u>\$ 5,950,000</u>	<u>\$ 6,577,500</u>
Total loans:			
Ending balance:			
individually evaluated for impairment	\$ -	\$ -	\$ -
Ending balance:			
collectively evaluated for impairment	9,333,319	165,912,795	175,246,114
	<u>\$ 9,333,319</u>	<u>\$ 165,912,795</u>	<u>\$ 175,246,114</u>

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 shows the multi-family portfolio segment as allocated by management's internal risk ratings as of June 30:

	2021	2020
Pass	<u>\$ 156,242,850</u>	<u>\$ 165,912,795</u>

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Notes to Consolidated Financial Statements

Note 6. Notes Receivable (Continued)

Future maturities on homebuyer programs notes receivable within the next five years are \$162,756 with remaining amounts due thereafter. Future principal repayments for the multi-family programs loans are estimated as follows:

Years ending June 30:

2022	\$ 61,727,031
2023	39,073,357
2024	11,622,479
2025	4,985,208
2026	-
Thereafter	38,834,775
	<u>\$ 156,242,850</u>

For 2021 and 2020, neither the balances nor interest income recognized on impaired loans were significant.

There were no loans modified as TDRs during the years ended June 30, 2021 and 2020.

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:

Description	Carrying Value at 2021			
	Total	Level 1	Level 2	Level 3
Impaired loans	\$ -	\$ -	\$ -	\$ -

Description	Carrying Value at 2020			
	Total	Level 1	Level 2	Level 3
Impaired loans	\$ -	\$ -	\$ -	\$ -

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Notes to Consolidated Financial Statements

Note 6. Notes Receivable (Continued)

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:

	2021				
	Loan Balance	Past Due ≥ 90 Days	Allowance	Status of Interest Accruals	
				Total Financing Receivable on Nonaccrual Status	Financing Receivables Past Due and Still Accruing Interest
Homebuyer programs	\$ 7,382,976	\$ -	\$ 534,000	\$ -	\$ -
Multi-family programs:					
Funded by Affordable Housing Growth Fund LP (AHGF)	-	-	-	-	-
Unsecured	50,357	-	3,525	-	-
Non-real estate secured	9,404,886	-	658,342	-	-
Long-term deferred loan program	14,973,046	-	484,925	-	-
Real estate secured	114,360,569	-	3,890,938	-	-
Nonrecourse	17,453,992	-	87,270	-	-
	156,242,850	-	5,125,000	-	-
Total portfolio	\$ 163,625,826	\$ -	\$ 5,659,000	\$ -	\$ -

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Notes to Consolidated Financial Statements

Note 6. Notes Receivable (Continued)

	2020					
	Loan Balance	Past Due ≥ 90 Days	Allowance	Status of Interest Accruals		
				Total Financing Receivable on Nonaccrual Status	Financing Receivables Past Due and Still Accruing Interest	
Homebuyer programs	\$ 9,333,319	\$ -	\$ 627,500	\$ -	\$ -	
Multi-family programs:						
Funded by AHGF	9,348,838	-	467,442	-	-	
Unsecured	333,408	-	23,339	-	-	
Non-real estate secured	10,649,122	-	745,439	-	-	
Long-term deferred loan program	15,228,540	-	514,157	-	-	
Real estate secured	110,187,914	-	3,549,961	-	-	
Nonrecourse	20,164,973	-	649,662	-	-	
	165,912,795	-	5,950,000	-	-	
Total portfolio	\$ 175,246,114	\$ -	\$ 6,577,500	\$ -	\$ -	

Note 7. Furniture and Equipment

Furniture and equipment are summarized as follows at June 30:

	2021	2020
Office equipment	\$ 121,213	\$ 128,253
Software	40,918	40,918
Furniture and fixtures	195,508	195,508
Leasehold improvements	40,553	37,303
	398,192	401,982
Less accumulated depreciation and amortization	(262,962)	(204,303)
Total furniture and equipment, net	\$ 135,230	\$ 197,679

Depreciation and amortization charged to expense was \$74,346 and \$76,386 for the years ended June 30, 2021 and 2020, respectively. Housing Trust retired equipment totaling \$16,689 and recorded a loss of \$1,003 on the retired equipment at June 30, 2021.

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Notes to Consolidated Financial Statements

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. Nonrecourse capital from third parties is as follows at June 30:

	2021	2020
Affordable Housing Growth Fund (AHGF) (1)	\$ -	\$ 7,533,561
2015 Loan Fund - Tranche I (2)	2,523,061	-
2015 Loan Fund - Tranche II (2)	2,203,306	4,722,190
Monterey Bay Housing Trust (3)	1,051,381	1,021,151
Sonoma County Housing Fund (4)	580,833	-
Silicon Valley Community Foundation	125,000	-
Non-true sale participants (5)	11,095,411	6,888,071
	17,578,992	20,164,973
Less current portion	(11,984,236)	(7,600,243)
Long-term portion	\$ 5,594,756	\$ 12,564,730

- (1) AHGF - Housing Trust entered in a Funds Pooling Agreement (Agreement) on May 6, 2013, where the total loan pool commitment is \$10,101,120, of which \$8,085,000 is from Investor Banks and \$2,016,120 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 Housing Trust and the Investor Banks, which represents the Investor Banks' only recourse. Cash designated for loan loss reserve was \$0 and \$467,442 at June 30, 2021 and 2020, respectively, and is included in cash and cash equivalents on the consolidated statements of financial position. The termination date for the Agreement is January 1, 2023. There are no loans outstanding under this Agreement as of June 30, 2021.
- (2) 2015 Loan Fund - Housing Trust entered into a 2015 Affordable Housing Loan Pooling 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 Agreement was extended for an additional five-year period upon the original termination date of 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.

**Housing Trust Silicon Valley
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Notes to Consolidated Financial Statements

Note 8. Nonrecourse 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. (MBEP) raised and will invest \$2,000,000 with the remaining amount funded by Housing Trust. Loans made from these funds are financing developments in the three county region covered by MBEP. 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 five years. The termination date for the Agreement is June 1, 2022. To-date the Monterey Bay Housing Trust has created or preserved 603 homes and funds have revolved and been augmented by Housing Trust such that \$22.6 million has been invested together in the region.
- (4) In October 2020, Housing Trust entered into a Funds Pooling Agreement with the Santa Rosa Metro Chamber to create the funding source for the Sonoma County Housing Fund. The fund via the pooling agreement provides capital to multi-family affordable housing developers in Sonoma County. Santa Rosa Metro Chamber's loan pool commitment is \$2,000,000 and Housing Trust will provide the remainder of the capital. The fund has made three loans to developments in Sonoma County via this fund in 2021. The agreement terminates in 2025 but can be renewed for an additional five years.
- (5) Secured borrowings - Housing Trust occasionally sells some participation loans to third parties that do not meet the criteria to be accounted for as sales in accordance with ASC 860, Transfers and Servicing. As a result, the participation loans are accounted for as secured borrowings, whereby Housing Trust records cash received from the transferee and records a liability to repay the cash to the transferee. The transferees have no recourse to Housing Trust for failure of the underlying borrowers to pay amounts contractually due. The outstanding balance of participation loans sold that are accounted for as secured borrowings is \$11,095,411 and \$6,888,071 as of June 30, 2021 and 2020, respectively.

Housing Trust is responsible for monitoring and receiving monthly payments from the borrowers. Heritage Bank acts as Administrative Agent for AHGF, Monterey Bay Housing Trust, 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 related to the AHGF Funds Pooling Agreement, is not required to be repaid if the \$17,453,992 and \$20,164,973 as of June 30, 2021 and 2020, respectively, of corresponding notes receivable within the multi-family program in Note 6 are not repaid.

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Notes to Consolidated Financial Statements

Note 9. Notes Payable

Term loans of \$14,892,380 are secured by notes receivable and cash and the remaining are unsecured and consist of the following at June 30:

	2021	2020
Term loans:		
Notes payable to religious and health and welfare organizations, bearing interest of 2%, with interest due quarterly, to be repaid in full from August 2020 to November 2024.	\$ 1,000,000	\$ 1,350,000
Notes payable to financial institutions, bearing interest of 3%, with interest due quarterly, to be repaid in full in December 2025.	3,000,000	3,000,000
Community Impact notes payable, bearing interest of 1.5%, paid semiannually, to be repaid in full from April 2022 to April 2026.	62,250,000	58,500,000
Notes payable to foundations and corporations, bearing interest from 1.5% to 2%, with interest due quarterly, to be repaid in full from January 2023 to August 2027.	25,600,000	25,600,000
Bond loan, secured notes, for up to \$25,000,000, with maturities up to 29.5 years with at a spread over U.S. Treasuries as funds are drawn. In 2020, two draws occurred bearing interest from 1.1% to 1.9%, with interest due monthly, and principal to be repaid from January 2022 to December 2030.	14,892,380	14,892,380
Subordinated notes payable:		
Notes payable to financial institutions, bearing interest from 2% to 2.5%, 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.	7,750,000	7,750,000
Outstanding revolving lines of credit:		
Charles Schwab Bank revolving line of credit with a maximum amount of borrowings of \$15,000,000, with interest due quarterly at the greater of three-month LIBOR plus 1.75% or 3% per annum. The line of credit has a maturity date of April 2026, but is reviewed annually for an option to extend the advance period. A US Bank revolving line of credit with a maximum amount of \$10,000,000 was added in June 2021 with an interest rate of the monthly LIBOR plus 1.5%, with interest due quarterly.	-	-
	114,492,380	111,092,380
Less current portion	(19,028,178)	(350,000)
Less unamortized loan fees	(111,816)	(129,055)
Long-term portion	<u>\$ 95,352,386</u>	<u>\$ 110,613,325</u>

**Housing Trust Silicon Valley
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Notes to Consolidated Financial Statements

Note 9. Notes Payable (Continued)

In March 2017 Housing Trust created a campaign called the TECH Fund - Technology Equity Community and Housing to fund its multi-family lending program. As part of this campaign Housing Trust has authorized and issued notes to employer and philanthropy accredited investors.

- In April 2017, Housing Trust offered for sale to accredited investors up to \$50,000,000 Community Impact Notes. The notes, Series A, five-year note bearing interest of 1.5%, paid semiannually, and Series B, 10-year notes bearing interest of 1.5%, paid semiannually, are unsecured. The note series were extended in 2018 to C through F.
- In July 2019, Housing Trust entered into a Note Purchase Agreement whereby it offered an additional \$50,000,000 in Community Impact Notes for sale to Google. These notes can be sold during the five-year period ending July 2024 and begin with Series G, each series in a \$10,000,000 increment. The notes bear interest at 1.5% paid semiannually and have a term of five years. As of June 30, 2021, \$10,000,000 Series G notes and \$10,000,000 Series H notes have been sold.
- In January 2020, Housing Trust issued a separate Community Impact Note to Google in the amount of \$5,000,000, with a term of five years and bearing interest at 1.5% paid semiannually. The proceeds of this note must be invested in the affordable housing developments in the City of Mountain View.
- In October 2019, Housing Trust revised its offering memorandum and added one additional term of note offering for sale \$25,000,000 Community Impact Notes. The notes are: Series 1, two-year note bearing interest of 1.25%, paid semiannually, Series 2, five-year note bearing interest of 1.5% paid semiannually, and Series 3, 10-year note bearing interest of 2.0%. The note series were extended in 2021 to 4 through 6. The notes are: Series 4, two-year note bearing interest of 1.0%, paid semiannually, Series 5, five-year note bearing interest of 1.5% paid semiannually, and Series 6, 10-year note bearing interest of 1.85%.
- As of June 30, 2021 and 2020, \$61,500,000 and \$58,500,000 Series A through H notes, respectively, have been sold. As of June 30, 2021, \$500,000 Series 2 Note and \$250,000 Series 5 Notes have been sold.

Housing Trust has and expects to continue to attract nonCommunity Reinvestment Act (CRA) motivated investors to invest via this vehicle.

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

Years ending June 30:

2022	\$ 19,028,178
2023	3,897,470
2024	32,315,892
2025	30,337,156
2026	5,273,838
Thereafter	23,639,847
	<u>\$ 114,492,381</u>

Housing Trust Silicon Valley
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Notes to Consolidated Financial Statements

Note 9. Notes Payable (Continued)

Housing Trust has a revolving line of credit agreement with Charles Schwab Bank whereby it may borrow up to \$15,000,000. 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, 2021 and 2020. The line of credit availability expires on April 14, 2022, and must be renewed. Its final maturity is April 6, 2026. There was no outstanding balance under this line of credit at June 30, 2021 and 2020.

In June 2021, Housing Trust obtained a revolving line of credit with US Bank with a maximum amount of \$10,000,000 with an interest rate of the monthly LIBOR plus 1.5%, with interest due quarterly.

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. Housing Trust has pledged \$15,329,346 and \$15,479,645 of notes receivable, \$174,006 and \$157,354 of cash and has outstanding debt of \$14,892,380 and \$14,892,380 as of June 30, 2021 and 2020, respectively.

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 \$73,200 and \$217,850 for the years ended June 30, 2021 and 2020, respectively.

Housing Trust had related-party notes payable of \$30,750,000 and \$32,755,798 at June 30, 2021 and 2020, respectively.

Aggregate loan transactions with related parties for the years ended June 30 were approximately as follows:

	2021	2020
Balance, beginning of year	\$ 2,005,798	\$ 535,000
New loans	-	1,480,000
Repayments and grants	(49,498)	(9,202)
Transferred out	(1,956,299)	-
Balance, end of year	<u>\$ -</u>	<u>\$ 2,005,798</u>

The balance of loans with related parties was transferred out during the year ended June 30, 2021, when the borrower was no longer deemed to be a related party.

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.

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Notes to Consolidated Financial Statements

Note 11. Grants (Continued)

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 \$297,071 and \$382,809 in 2021 and 2020, respectively. Grants are short-term grants, and therefore don't have future barriers that would result in conditions.

Note 12. Conditional Contributions

The balance in conditional contributions represents funds received but not lent as of June 30, 2021 and 2020. Conditional contributions consist of the following:

	2021	2020
Santa Clara County - SNCI (1)	\$ 215,909	\$ 215,909
Apple, Inc (2)	9,667,227	-
Total conditional contributions	<u>\$ 9,883,136</u>	<u>\$ 215,909</u>

- (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) In February 2020, Housing Trust entered into a grant agreement with Apple. The grant's mission is to support Housing Trust's work in the greater Bay Area with the purpose of deploying new solutions, accelerating timelines and housing families faster using gap and other types of loans to affordable housing developers. Apple has committed \$150 million to be distributed in two tranches from the date of the agreement February 3, 2020 to December 31, 2029. These grant awards will only be awarded upon Housing Trust meeting specific milestones as stated in the agreement subject to Apple's satisfaction. Housing Trust received \$10,000,000 of the lending capital in both 2020 and 2021, of which \$0 and \$9,667,227 was recorded, respectively, as a conditional contribution.

Note 13. Net Assets with Donor Restrictions

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

	2021			
	June 30, 2020	Contributions	Released from Restrictions	June 30, 2021
General lending programs	\$ 1,825,462	\$ 300,000	\$ (10,777)	\$ 2,114,685
Homebuyer programs	7,843,356	143,921	(201,107)	7,786,170
NSP2	8,109,664	250,788	1,500	8,361,952
Affordable Multi-Family Rental Program and Homeless/Special Needs Program	31,527,741	10,284,601	(7,992,258)	33,820,084
Finally Home and Rehabilitation Program	45,712	152,465	(153,727)	44,451
Time restrictions	338,530	20,000	(203,235)	155,295
	<u>\$ 49,690,465</u>	<u>\$ 11,151,776</u>	<u>\$ (8,559,604)</u>	<u>\$ 52,282,637</u>

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Notes to Consolidated Financial Statements

Note 13. Net Assets with Donor Restrictions (Continued)

	2020		
	June 30, 2019	Contributions	Released from Restrictions
			June 30, 2020
General lending programs	\$ 2,015,495	\$ 150,000	\$ (340,033)
Homebuyer programs	7,844,541	162,363	(163,548)
NSP2	7,847,116	263,480	(932)
Affordable Multi-Family Rental Program and Homeless/Special Needs Program	22,039,655	12,786,194	(3,298,108)
Finally Home and Rehabilitation Program	22,721	249,676	(226,685)
Time restrictions	455,098	210,000	(326,568)
	<u>\$ 40,224,626</u>	<u>\$ 13,821,713</u>	<u>\$ (4,355,874)</u>
			<u>\$ 49,690,465</u>

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 \$18,065,994 and \$26,199,219 of disbursed funds with secondary-use restrictions as of June 30, 2021 and 2020, 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 \$146,613 and \$111,448 to the Plan during 2021 and 2020, 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, 2021 and 2020, was \$236,446 and \$225,790, respectively. The following represents future minimum lease payments:

Years ending June 30:	
2022	\$ 264,256
2023	272,184
2024	69,913
	<u>\$ 606,353</u>

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Notes to Consolidated Financial Statements

Note 16. Commitments and Contingencies

Housing Trust had undisbursed loan commitments totaling \$31,429,345 and \$26,344,683 as of June 30, 2021 and 2020, respectively, relating to its multi-family programs.

COVID-19: On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which Housing Trust operates. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic. Housing Trust has granted payment deferrals for two homebuyer loans in May 2020.

It is unknown how long the adverse conditions associated with the coronavirus will last and what the complete financial effect will be to Housing Trust. The impact of this on Housing Trust, its borrowers, grantors, funding sources, and other constituents cannot be determined at this time. These impacts may include, but are not limited to, the ability of borrowers to repay their outstanding balances as they become due as well as the ability of others such as lenders, investors, grantors or grantees in any of the sectors in which Housing Trust operates to honor their commitments. Depending on how long COVID-19 concerns last, Housing Trust could see in the future increased delinquencies and loan losses, which could have negative implications over net income, but does not expect to. Housing Trust believes there may be longer construction periods, but contract extensions are already built into multi-family loans when they are originated to help account for this. Housing Trust’s small homebuyer portfolio could continue to be affected by the recent low interest rate market, resulting in more payoffs, but an increase rate in delinquencies is not expected.

Additionally, it is reasonably possible that estimates, including the loan loss reserves and the investment valuation made in the consolidated financial statements may materially differ in the near term as a result of these conditions.