



**Office of the Washington State Auditor  
Pat McCarthy**

December 24, 2020

Board of Directors  
Community Roots Housing  
Seattle, Washington

**Contracted CPA Firm's Audit Report on Financial Statements**

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements and compliance with federal grant requirements of Community Roots Housing for the fiscal year ended December 31, 2019 and 2018. The Authority contracted with the CPA firm for this audit and requested that we accept it in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor did not audit the accompanying financial statements or Community Roots Housing's compliance with federal grants and, accordingly, we do not express an opinion on those financial statements or on compliance.

This report is being published on the Office of the Washington State Auditor website as a matter of public record.

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

***Americans with Disabilities***

*In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at [webmaster@sao.wa.gov](mailto:webmaster@sao.wa.gov).*



**COMMUNITY ROOTS**  
— HOUSING —

Financial Statements and Single Audit Reports

For the Years Ended December 31, 2019 and 2018

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## Independent Auditor's Report

To the Board of Directors  
Capitol Hill Housing Improvement Program  
Seattle, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of Community Roots Housing (CRH), as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise CRH's basic financial statements as listed in the table of contents.

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of CRH, as of December 31, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.



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## Other Matters

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise CRH's basic financial statements. The schedules of departmental operations and property operations are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the financial statements. The schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of departmental operations and property operations are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2020 on our consideration of CRH's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CRH's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CRH's internal control over financial reporting and compliance.



Certified Public Accountants  
June 26, 2020

## COMMUNITY ROOTS HOUSING

### Management's Discussion and Analysis For the Year Ended December 31, 2019

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As management of Community Roots Housing ("CRH"), we offer readers of the CRH financial statements this narrative overview and analysis of the financial activities of CRH for the year ended December 31, 2019.

#### Financial Highlights

- Assets exceeding liabilities (net position) at the close of 2019 totaled \$39,174,980.
- Unrestricted cash and cash equivalents at December 31, 2019 totaled \$3,866,419.
- CRH properties continue to operate with low vacancy rates across the portfolio (blended and discrete component units) averaging 4.8 percent in 2019.
- During 2019 and early 2020, CRH completed construction of the Capitol Hill Transit Oriented Development (Station House) project and started leasing up the units. The lease up is projected to be completed in late 2020.
- During 2019, CRH completed construction and lease up of the Union and 24th Associates (Liberty Bank Building) project. The construction loan was converted to permanent loan financing in 2019.
- During 2019, CRH in partnership with Seattle Chinatown International District Preservation Authority, formed Big Village LLLP to begin predevelopment of an approximately 158-unit affordable housing project known as Yesler Family.
- During 2019, CRH closed on construction financing and began construction on Bonanza, a project to rehabilitate three existing CRH properties (Ponderosa, El Nor, and Eighteenth Avenue) within one scattered site tax credit project. Ponderosa rehabilitation was completed in 2019 while work on the other two properties will be completed in 2020.
- During 2019, CRH received a City of Seattle Office of Housing funding award for an approximately 118-unit affordable housing project on Capitol Hill known as the Eldridge development.
- During 2019, CRH in partnership with AfricaTown Community Land Trust, received a City of Seattle Office of Housing funding award for an approximately 132-unit affordable housing project in the Central District known as AfricaTown Plaza.

#### Overview of the Financial Statements

CRH's financial statements consist of three parts - management's discussion and analysis (this section), financial statements prepared in accordance with Governmental Accounting Standards Board (GASB) standards and supplemental schedules.

CRH's financial statements provide information about CRH's overall financial position and results of operations. The financial statements report information about CRH as a whole using accounting methods similar to those used by private sector companies. These statements, which are presented on the accrual basis, consist of the Balance Sheet, Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. The Balance Sheet includes all of CRH's assets and liabilities. All current year revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position regardless of when cash is received or paid.

## COMMUNITY ROOTS HOUSING

### Management's Discussion and Analysis For the Year Ended December 31, 2019

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#### Overview of the Financial Statements (Continued)

The financial statements include the activities of CRH and 24 related entities that are required to be combined with CRH. These entities are three nonprofits, Elizabeth James Senior Housing, Central City Affordable Housing and CH Development Association and the following limited partnerships, limited liability limited partnership and limited liability companies, Larned Apartments Limited Partnership, Byron/Wetmore Limited Partnership, SOPI Village Manager LLC, Villa Apartments Limited Partnership, Gilman Court Limited Partnership, 1214 Boylston Avenue Limited Partnership, Fleming Apartments Limited Partnership, Harrison Family Housing Limited Partnership, Union James Affordable Housing LLC, Helen V Apartments Limited Partnership, Oleta Apartments Limited Partnership, Holiday Affordable LLC, Twelfth Avenue Arts Master Tenant LLC, Twelfth Avenue Arts Development LLC, CHH Squire Park LLC, Africatown Plaza LLLP, Africatown Plaza GP LLC, CHDA Lake City LLLP, CHDA Lake City GP LLC, Imperial Jazz LLLP, CH Real Estate Management Services LLC, Union 24<sup>th</sup> Manager LLC, and CH TOD Manager LLC.

Although legally separate, the nonprofits were formed to meet the mission of CRH. Since CRH board members comprise all or a majority of the nonprofit boards' members, they are considered instrumentalities of CRH and are included in CRH's financial statements. CRH is the general partner and CH Development Association has replaced the investor limited partners in the eight limited partnerships. CRH is the sole member of CH Real Estate Management Services LLC, Holiday Affordable LLC, CHH Squire Park LLC, Union James Affordable Housing LLC, and CH TOD Manager LLC, and has a majority interest in SOPI Village Manager LLC. CH Development Association is the sole member of Twelfth Avenue Arts Development LLC which is, in turn, the sole member of Twelfth Avenue Arts Master Tenant LLC. CHDA has a majority interest in Africatown Plaza GP, LLC, which is the general partner of Africatown Plaza, LLLP. CHDA also has a 49.9995% interest in Africatown Plaza, LLLP and a 49% interest in Monku LLC. CHDA Lake City GP, LLC, of which CHDA is the sole member, is the managing member of CHDA Lake City, LLLP. CRH is the initial limited partner in CHDA Lake City, LLLP. CHDA has a majority interest in Union 24<sup>th</sup> Manager LLC, which is the general partner of Union and 24<sup>th</sup> Associates LLC.

The financial statements also include as "Discrete Component Units" 12 legally separate tax credit partnerships and limited liability companies for which CRH or CHDA is financially accountable as the sole general partner or managing member. Additionally, the Community Roots Housing Foundation is included as a discrete component unit as is 12th Avenue Arts Associates LLC, Twelfth Avenue Arts Association and Imperial Jazz LLLP. Financial information for these affiliates is aggregated and reported in a separate column from the CRH financial information. Audited financial statements are available for most discrete component units and may be requested from CRH.

The financial statements also include a "Notes to Financial Statements" section that provides additional information that is essential to a full understanding of the data provided in the financial statements.

The supplemental schedules provide a breakdown of CRH property operations at the building level.

## COMMUNITY ROOTS HOUSING

### Management's Discussion and Analysis For the Year Ended December 31, 2019

#### Overview of the CRH Blended Entity Financial Position and Operations

	December 31,	2019	2018	2017
<b>Assets:</b>				
Current assets	\$	11,998,010	\$ 8,212,337	\$ 6,660,255
Noncurrent assets-				
Capital assets, net		53,752,964	57,512,468	55,236,302
Other		38,554,466	23,152,336	22,483,272
<b>Total Assets</b>		<b>\$ 104,305,440</b>	<b>\$ 88,877,141</b>	<b>\$ 84,379,829</b>
<b>Liabilities:</b>				
Current liabilities	\$	6,099,726	\$ 4,399,249	\$ 4,634,281
Noncurrent liabilities		59,030,734	64,169,866	59,095,120
<b>Total Liabilities</b>		<b>\$ 65,130,460</b>	<b>\$ 68,569,115</b>	<b>\$ 63,729,401</b>
<b>Net Position:</b>				
Invested in capital assets, net of related debt	\$	(4,062,676)	\$ (3,583,244)	\$ (1,491,519)
Restricted		6,139,343	6,941,715	6,142,130
Unrestricted		37,098,313	16,949,555	15,999,817
<b>Total Net Position</b>		<b>\$ 39,174,980</b>	<b>\$ 20,308,026</b>	<b>\$ 20,650,428</b>

The financial assets of CRH consist primarily of capital assets, its land, buildings and building improvements. This is consistent with CRH's mission to build vibrant and engaged communities through affordable housing and community development efforts in Seattle. Capital assets are shown net of depreciation. Other assets include cash reserves for repairs and replacements and debt service as required by our lenders.

The liabilities are predominantly long-term debt that has been used to purchase, develop and rehabilitate our apartment buildings. Many of these loans, provided by governmental entities, have below market interest rates and do not require annual debt service. See Note 5 for a more complete discussion.

The difference between total assets and total liabilities, net position, is one indicator of financial health. Net position increased by \$18,866,954 in 2019 while it decreased by \$342,402 in 2018. While operating results improved over 2018, the significant increase in 2019 net position is primarily due to the gain on sale of three CRH properties of \$12,886,239 to a low income housing tax credit partnership (Bonanza) for the purpose of rehabilitating the properties. In addition, the New Markets Tax Credit period for the 12<sup>th</sup> Avenue Arts cultural and civic center ended on December 31, 2019, and the first of two put agreements was exercised to acquire one of the investment funds, resulting in a gain of \$1,774,424.

For 2018, a decrease of \$858,097 was due to change in component units which occurred when CH Development Association acquired the limited partners' interests in Helen V Apartments LLC and Oleta Apartments Limited Partnership, and an increase of \$515,695 was due to operating results. For 2017, a decrease of \$24,425 was due to change in component units which occurred when the development of Union and 24th was transferred to Union and 24th Associates LLC, and a decrease of \$749,717 was due to operating results.



## COMMUNITY ROOTS HOUSING

### Management's Discussion and Analysis For the Year Ended December 31, 2019

#### Overview of the CRH Blended Entity Financial Position and Operations (Continued)

The results of operations for CRH are presented below:

	For the Year Ended December 31,	2019	2018	2017
Operating revenues-				
Tenant revenues	\$	12,174,133	\$ 12,469,469	\$ 11,095,359
Fees for services		1,149,470	1,076,045	977,678
Project development fees		4,218,378	2,095,153	511,659
Other		75,535	42,667	31,509
Nonoperating revenues-				
Contributions and grants		3,857,827	1,208,031	1,030,753
Gain on New Markets Tax Credit transaction		1,774,424		
Interest income		455,224	332,231	280,688
Gain (loss) on sale of assets		12,886,239	2,975	(4,710)
<b>Total Revenues</b>		<b>36,591,230</b>	<b>17,226,571</b>	<b>13,922,936</b>
Operating expenses-				
Salaries, benefits and payroll taxes		6,868,545	6,606,504	6,006,001
Operating and maintenance		2,305,419	1,706,902	1,501,073
Other operating expenses		4,978,236	4,611,863	3,808,268
Depreciation and amortization		2,348,886	2,461,188	2,214,287
Nonoperating expenses-				
Grant to component unit		44,313	92,181	40,800
Interest expense		1,178,877	1,232,238	1,102,404
<b>Total Expenses</b>		<b>17,724,276</b>	<b>16,710,876</b>	<b>14,672,833</b>
<b>Change in Net Position</b>	<b>\$</b>	<b>18,866,954</b>	<b>\$ 515,695</b>	<b>\$ (749,897)</b>

**Results of Operations** - Operating revenues are generated principally from rental income as well as property management and other fees paid by the discrete component units. Tenant revenues were flat in 2019 due to the mid-year disposition of the 3 Bonanza properties. Tenant revenues increased 12 percent in 2018 and 7 percent in 2017. We are limited in how much we can increase tenant revenues as our rents are regulated. Vacancy loss for 2019 was 5.3 percent. Vacancy loss for 2018 was 3.2 percent and for 2017 was 1.9 percent. CRH continues to work to turn and lease units faster.

CRH earns development fees for its management role in the development of new properties. During 2019 CRH earned development fees of \$4,218,378 primarily for the development of Bonanza and Station House. During 2018 CRH earned development fees of \$2,082,600 primarily for the development of Union and 24<sup>th</sup> residential and commercial development and Station House development. During 2017 CRH earned development fees of \$449,106 primarily for the development of Union and 24<sup>th</sup> residential and commercial development.

## COMMUNITY ROOTS HOUSING

### Management's Discussion and Analysis For the Year Ended December 31, 2019

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#### Overview of the CRH Blended Entity Financial Position and Operations (Continued)

Salaries, benefits and payroll tax expense increased by 4 percent in 2019. Salaries, benefits and payroll tax expense increased by 10 percent in 2018, primarily due to the addition of two new properties being classified as blended and a 20 percent increase in health care costs. CHH also added two new staff positions during 2018. Salaries, benefits and payroll tax expense increased by 11 percent in 2017, primarily due to a 21 percent increase in health care costs as well as the addition of four new staff positions.

Operating and maintenance expenses increased 27 percent in 2019. Much of that increase was attributable to 3 properties where there was substantial deferred maintenance which we were able to address in 2019. There was also increased turnover expense as vacancy rose. Operating and maintenance expenses increased 14 percent in 2018, primarily due to the reclassification of the Oleta and Helen V properties to blended as well as general increases in market costs for repair and maintenance service/products. Some variability is to be expected as building components wear out, long-term tenants move out and our portfolio ages. Operating and maintenance expense remained constant in 2017 as CRH continued to focus on improving efficiencies and reducing costs throughout the portfolio.

Interest expense, primarily from the long-term financing of the properties, continues to be a significant expense. Typically, each property acquired has both amortizing and nonamortizing debt from commercial and governmental sources, respectively. A portion of the interest expense, under the terms of the financing, is deferred and will eventually be forgiven so long as the properties are managed in compliance with the loan agreements. Interest expense decreased in 2019 by 4.5 percent due to the sale of the Bonanza properties. Interest expense increased 11.8 percent in 2018 and 2.7 percent in 2017, primarily due to the addition of debt used to finance the rehabilitation project at Mary Ruth Manor, which was completed in 2017.

As noted previously, CRH recognized a gain on sale of the Bonanza properties of \$12,886,239 in 2019 and a gain of \$1,774,424 on the New Markets Tax Credit transaction.

In 2019 CRH received \$3,857,827 in contributions and grants representing 22% of total revenue. In 2019, this included \$1,829,432 from the Community Roots Housing Foundation's Rise Together capital campaign and \$246,258 in grants for capital improvements at Joe Black Apartments and Elizabeth James Senior Housing. These grants increase revenues without an offsetting expense. Excluding these grants, CRH received \$1,282,137 in 2019 which included awards from the Community Roots Housing Foundation, Enterprise Community Partners, Local Initiatives Support Corporation and continued support from the City Office of Economic Development.

In 2018 CRH received \$1,208,031 in contributions and grants representing 7% of total revenue. In 2018, this included \$184,776 in grants for capital improvements at Elizabeth James Senior Housing. These grants increase revenues without an offsetting expense. Excluding these grants, CRH received \$1,023,255 in 2018 which included awards from the Community Roots Housing Foundation, Enterprise Community Partners, Local Initiatives Support Corporation and continued support from the City Office of Economic Development.

In 2017 CRH received \$1,030,753 in contributions and grants representing 7.5% of total revenue. In 2017, this included \$122,205 in grants for capital improvements at the Brewster and \$50,048 at Mary Ruth Manor. These grants increase revenues without an offsetting expense. Excluding these grants, CRH received \$880,641 in 2017 which included awards from the Community Roots Housing Foundation, Enterprise Community Partners and continued support from the City Office of Economic Development.

## COMMUNITY ROOTS HOUSING

### Management's Discussion and Analysis For the Year Ended December 31, 2019

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#### Overview of the CRH Blended Entity Financial Position and Operations (Continued)

**Supplemental Schedule** - The supplemental Schedule of Departmental Operations provides additional insight into the financial operations of CRH. CRH budgets and manages financial performance based on its lines of business including its buildings (Property Operations) and organizational and off-site activities (Administration and Management).

Property Operations, which includes all building-based revenues and expenses, shows revenues exceeded expenditures plus debt service and scheduled reserve deposits by \$280,000. In addition to the operating expenditures, we spent an additional \$403,256 on repair and maintenance funded from our building reserves.

#### Economic Factors Affecting CRH's Future

Significant economic factors affecting CRH are as follows:

- CRH faces significant risk from the ongoing effects and uncertainty resulting from the COVID-19 pandemic. Risks include loss of tenant rents, both residential and commercial, due to decreased economic activity and high unemployment.
- Availability of credit and tax credit equity affects our ability to develop new projects and recapitalize existing projects. Both are affected in an economic downturn.
- CRH faces risk from political and governmental decisions beyond its control such as changes to the Internal Revenue Code affecting the Low-Income Housing Tax Credit, changes to federal and local rental subsidy programs or changes in state and local priorities for capital subsidies to develop new properties. Federal, state and local restrictions on tenant evictions may reduce rent collections.
- CRH operates and develops affordable housing in and adjacent to Seattle and is subject to the ups and downs of the local real estate market conditions.
- CRH faces increased competition for scarce resources such as bond cap, state and local funds and corporate and foundation donations.
- Local employment trends affect resident incomes and therefore the demand for housing and the rental rates CRH can realize.
- Inflation may cause overall operating expenses to increase faster than it is desirable or allowable to raise rents for existing unit occupants which may generate higher turnover or vacancy. Certain operating expenses such as insurance or utilities may increase due to external events outside of the control of CRH.

#### Contacting CRH's Financial Management

The financial report is designed to provide a general overview of CRH's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Chief Executive Officer, Community Roots Housing, 1620 12th Avenue, Suite 205, Seattle, WA 98122.

# COMMUNITY ROOTS HOUSING

## Balance Sheets - Assets December 31, 2019 and 2018

	2019		2018	
	CRH	Discrete Component Units	CRH	Discrete Component Units
<b>Current Assets:</b>				
Cash and cash equivalents	\$ 3,866,419	\$ 2,182,328	\$ 3,348,384	\$ 1,626,062
Accounts receivable, net	7,704,357	898,400	4,460,563	727,426
Current portion of pledges receivable, net		354,768		496,011
Prepaid expenses and other current assets	398,071	67,175	362,400	141,837
Current portion of notes and interest receivable	29,163		40,990	
<b>Total Current Assets</b>	<b>11,998,010</b>	<b>3,502,671</b>	<b>8,212,337</b>	<b>2,991,336</b>
Restricted cash and cash equivalents	6,027,162	6,800,953	7,129,668	3,615,678
Deferred rent receivable	682,767	65,000	564,399	80,714
Notes and interest receivable	30,753,836		14,866,925	
Land, buildings and equipment, net	53,752,964	177,833,034	57,512,468	126,878,788
Investment in limited partnerships and LLCs	1,090,701		591,344	
Capitalized costs, net		258,656		163,362
<b>Total Assets</b>	<b>\$ 104,305,440</b>	<b>\$ 188,460,314</b>	<b>\$ 88,877,141</b>	<b>\$ 133,729,878</b>

See accompanying notes.

# COMMUNITY ROOTS HOUSING

## Balance Sheets - Liabilities and Net Position December 31, 2019 and 2018

	2019		2018	
	CRH	Discrete Component Units	CRH	Discrete Component Units
<b>Current Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 2,181,781	\$ 1,517,864	\$ 1,898,836	\$ 1,657,826
Construction payables		12,293,278		6,318,448
Deferred income	114,909	37,299	109,763	28,507
Current portion of accrued interest payable	101,397	90,418	112,745	71,911
Current portion of notes payable	3,701,639	506,246	2,277,905	3,543,646
<b>Total Current Liabilities</b>	<b>6,099,726</b>	<b>14,445,105</b>	<b>4,399,249</b>	<b>11,620,338</b>
Security deposits	527,344	249,461	576,784	220,474
Long-term deferred income	412,134		521,266	
Notes payable, net of current portion	54,114,001	151,351,512	58,817,807	108,075,090
Accrued interest payable	3,977,255	4,220,810	4,254,009	3,243,728
<b>Total Liabilities</b>	<b>65,130,460</b>	<b>170,266,888</b>	<b>68,569,115</b>	<b>123,159,630</b>
<b>Net Position:</b>				
Restricted for building improvements	3,121,909	2,202,012	4,387,537	1,554,315
Restricted for other purposes	3,017,434	5,250,662	2,554,178	2,612,860
<b>Total restricted</b>	<b>6,139,343</b>	<b>7,452,674</b>	<b>6,941,715</b>	<b>4,167,175</b>
Invested in capital assets, net of related debt	(4,062,676)	13,681,998	(3,583,244)	8,941,604
Unrestricted	37,098,313	(2,941,246)	16,949,555	(2,538,531)
<b>Total Net Position</b>	<b>39,174,980</b>	<b>18,193,426</b>	<b>20,308,026</b>	<b>10,570,248</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 104,305,440</b>	<b>\$ 188,460,314</b>	<b>\$ 88,877,141</b>	<b>\$ 133,729,878</b>

See accompanying notes.

## COMMUNITY ROOTS HOUSING

### Statements of Revenues, Expenses and Changes in Net Position For the Years Ended December 31, 2019 and 2018

	2019		2018	
	CRH	Discrete Component Units	CRH	Discrete Component Units
<b>Operating Revenues:</b>				
Gross rent potential	\$ 12,619,300	\$ 6,604,165	\$ 12,653,686	\$ 4,609,497
Vacancy loss	(664,092)	(252,931)	(400,373)	(121,105)
Laundry, parking and other tenant income	218,925	219,535	216,156	171,229
Fees for services	1,149,470		1,076,045	
Project development and other fees	4,218,378		2,095,153	
Insurance proceeds				525,516
Other operating revenue	75,535	13,991	42,667	28,965
<b>Total Operating Revenues</b>	<b>17,617,516</b>	<b>6,584,760</b>	<b>15,683,334</b>	<b>5,214,102</b>
<b>Operating Expenses:</b>				
Salaries, benefits and payroll taxes	6,868,545	731,331	6,606,504	566,855
Utilities	1,371,890	498,826	1,553,250	275,643
Professional fees	995,120	274,706	756,165	150,743
Administrative	993,085	1,104,199	798,201	896,609
Master lease	595,000		581,000	
Taxes and insurance	681,668	296,411	614,433	191,348
Operating and maintenance	2,305,419	994,132	1,706,902	917,909
Bad debt expense	105,923	65,244	144,486	28,072
Grants to CRH and affiliates		3,441,859		955,933
Other	235,550	273,516	164,328	825,199
Depreciation and amortization	2,348,886	3,886,081	2,461,188	2,960,540
<b>Total Operating Expenses</b>	<b>16,501,086</b>	<b>11,566,305</b>	<b>15,386,457</b>	<b>7,768,851</b>
<b>Operating Income (Loss)</b>	<b>1,116,430</b>	<b>(4,981,545)</b>	<b>296,877</b>	<b>(2,554,749)</b>
<b>Nonoperating Revenues (Expenses):</b>				
Contributions and grants	3,857,827	3,760,106	1,208,031	1,515,982
Grant to component unit	(44,313)		(92,181)	
In-kind revenue		573,374		403,256
Gain on New Markets Tax Credit transaction	1,774,424			
Interest income	455,224	16,286	332,231	10,563
Gain on disposition of assets	12,886,239		2,975	
In-kind expense		(573,374)		(403,256)
Interest expense	(1,178,877)	(2,160,978)	(1,232,238)	(1,495,845)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>17,750,524</b>	<b>1,615,414</b>	<b>218,818</b>	<b>30,700</b>
<b>Change in Net Position Before Capital Contributions and Other Changes</b>	<b>18,866,954</b>	<b>(3,366,131)</b>	<b>515,695</b>	<b>(2,524,049)</b>
<b>Capital Contributions and Other Changes:</b>				
Change in component units			(858,097)	42,860
Syndication costs		(56,697)		
Capital contributions		11,046,006		542,628
<b>Total Capital Contributions and Other Changes</b>		<b>10,989,309</b>	<b>(858,097)</b>	<b>585,488</b>
<b>Change in Net Position</b>	<b>18,866,954</b>	<b>7,623,178</b>	<b>(342,402)</b>	<b>(1,938,561)</b>
Beginning of year	20,308,026	10,570,248	20,650,428	12,508,809
<b>End of Year</b>	<b>\$ 39,174,980</b>	<b>\$ 18,193,426</b>	<b>\$ 20,308,026</b>	<b>\$ 10,570,248</b>

See accompanying notes.

# Community Roots Housing

## Statements of Cash Flows For the Years Ended December 31, 2019 and 2018

	2019		2018	
	CRH	Discrete Component Units	CRH	Discrete Component Units
<b>Cash Flows From Operating Activities:</b>				
Receipts from tenants	\$ 10,413,202	\$ 6,402,035	\$ 12,586,957	\$ 4,682,852
Receipts for developer fees	3,434,528		539,140	
Proceeds from insurance				525,516
Payments to employees and for payroll taxes and benefits	(6,913,715)	(731,331)	(6,664,061)	(566,855)
Payments to suppliers	(6,713,907)	(6,948,949)	(5,089,975)	(4,925,205)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>220,108</b>	<b>(1,278,245)</b>	<b>1,372,061</b>	<b>(283,692)</b>
<b>Cash Flows From Noncapital Financing Activities:</b>				
Receipts from contributions and grants	4,006,745	3,901,349	1,436,039	1,084,115
Payment of grants	(44,313)		(92,181)	
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>3,962,432</b>	<b>3,901,349</b>	<b>1,343,858</b>	<b>1,084,115</b>
<b>Cash Flows From Capital and Related Financing Activities:</b>				
Acquisition of land, building and equipment	(4,007,388)	(32,904,403)	(1,999,188)	(29,747,430)
Proceeds from sale of land, building and equipment	2,199,570			
Proceeds from notes payable	515,000	34,359,780	1,681,644	28,763,898
Principal payments on notes payable	(2,076,604)	(9,946,167)	(1,375,000)	(475,872)
Interest paid on notes payable	(1,199,420)	(1,267,285)	(1,222,389)	(765,296)
Payment of financing costs		(129,083)		
Payment of syndication costs		(56,697)		
Capital contributions		11,046,006		542,628
<b>Net Cash (Used) Provided by Capital and Related Financing Activities</b>	<b>(4,568,842)</b>	<b>1,102,151</b>	<b>(2,914,933)</b>	<b>(1,682,072)</b>
<b>Cash Flows From Investing Activities:</b>				
Net change in restricted cash and cash equivalents	1,102,506	(3,185,275)	(449,575)	1,287,813
Cash transfer due to change in component units			131,952	(131,952)
Investment in limited partnership	(500,000)			
Receipts on repayment of notes receivable			9,168	
Interest receipts	301,831	16,286	276,424	10,563
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>904,337</b>	<b>(3,168,989)</b>	<b>(32,031)</b>	<b>1,166,424</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>518,035</b>	<b>556,266</b>	<b>(231,045)</b>	<b>284,775</b>
Cash and cash equivalents, beginning of year	3,348,384	1,626,062	3,579,429	1,341,287
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 3,866,419</b>	<b>\$ 2,182,328</b>	<b>\$ 3,348,384</b>	<b>\$ 1,626,062</b>

See accompanying notes.

# COMMUNITY ROOTS HOUSING

## Statements of Cash Flows (Continued) For the Years Ended December 31, 2019 and 2018

	2019		2018	
	CRH	Discrete Component Units	CRH	Discrete Component Units
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>				
Operating income (loss)	\$ 1,116,430	\$ (4,981,545)	\$ 296,877	\$ (2,554,749)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities-				
Depreciation and amortization	2,348,886	3,886,081	2,461,188	2,960,540
Partnership income	643		5,217	
Changes in assets and liabilities:				
Receivables	(3,392,712)	(170,974)	(2,455,640)	24,225
Prepaid expenses and other current assets	(154,039)	74,662	9,046	(660,121)
Accounts payable and accrued liabilities	357,747	(139,962)	1,101,728	(51,700)
Security deposits and deferred income	(56,847)	53,493	(46,355)	(1,887)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ 220,108</b>	<b>\$ (1,278,245)</b>	<b>\$ 1,372,061</b>	<b>\$ (283,692)</b>
<b>Schedule of Noncash Financing and Investing Activities:</b>				
Noncash balance sheet net adjustments relating to change in component units, increase (decrease) to balance-				
Accounts receivables, net	\$ -	\$ -	\$ 126,131	\$ (10,845)
Prepaid expenses and other current assets	\$ -	\$ -	\$ 2,809	\$ (2,809)
Restricted cash and cash equivalents	\$ -	\$ -	\$ 544,191	\$ (544,191)
Land, buildings and equipment, net	\$ -	\$ -	\$ 2,828,232	\$ (2,828,232)
Investment in limited partnerships and LLCs	\$ -	\$ -	\$ (930,523)	\$ -
Accounts payable and accrued liabilities	\$ -	\$ -	\$ (746,091)	\$ 746,091
Security deposits	\$ -	\$ -	\$ 31,573	\$ (31,573)
Deferred income	\$ -	\$ -	\$ 26,608	\$ (26,608)
Accrued interest	\$ -	\$ -	\$ 240,605	\$ (240,605)
Notes payable	\$ -	\$ -	\$ 4,008,194	\$ (4,008,194)
Noncash elements of sale of properties from CRH to discrete component unit-				
Issuance of notes receivable (payable)	\$ 13,947,267	\$ (13,947,267)	\$ -	\$ -
Assumption of debt and accrued interest	\$ 1,986,027	\$ (1,986,027)	\$ -	\$ -

See accompanying notes.



## COMMUNITY ROOTS HOUSING

### Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

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#### Note 1 - Nature of Operations and Summary of Significant Accounting Policies

**Organization** - Community Roots Housing (CRH) is a public corporation chartered in 1975 under Washington State and municipal law as a public development authority. Formerly known as Capitol Hill Housing Improvement Program, the CRH board voted to change the name to Community Roots Housing in November 2019, after a public process involving feedback from over 600 stakeholders. CRH has broad powers to assist residents and property owners in preserving and improving housing in Seattle and to undertake activities in support of those goals.

These financial statements include the accounts of CRH and CRH's blended component units. The blended component units include CH Development Association, Elizabeth James Senior Housing, Central City Affordable Housing and several wholly-owned or majority-owned limited partnerships and LLCs. CRH and its blended component units include 33 apartment projects and 823 units. Blended component units, although legally separate entities, are, in substance, part of CRH's operations. Twelfth Avenue Arts Development LLC (Twelfth Avenue Arts Development) was created in 2012 to act as the leveraged lender in a New Markets Tax Credit project as further described in Note 2. CH Development Association is the sole member of Twelfth Avenue Arts Development and, therefore, Twelfth Avenue Arts Development is considered a blended component unit. In addition, Twelfth Avenue Arts Development is the sole member of the Twelfth Avenue Arts Master Tenant LLC (Master Tenant) and, therefore, the Master Tenant is considered a blended component unit. CH Real Estate Management Services LLC, a manager-managed limited liability company was established to manage properties as a for-profit organization, CRH is the sole member of the LLC.

**Discrete Component Units** - CRH serves as the general partner or managing member in several limited partnerships and LLCs (see Note 6). These limited partnerships and LLCs have investor limited partners or members who own majority interests in the entities. As general partner or managing member, CRH is financially accountable for and oversees the day-to-day operation of these properties. Each limited partnership and LLC is audited separately. Copies of the separately audited financial statements may be obtained by contacting CRH. The limited partnerships and LLCs include 11 apartment projects and 563 units as well as one project currently under construction. In addition, CRH manages Squire Park Plaza, a 60-unit apartment project, in which it has a minority interest.

Community Roots Housing Foundation (the Foundation) is incorporated in the State of Washington as a nonprofit corporation. The Foundation has received a tax-exempt determination letter from the Internal Revenue Service. The Foundation operates with the intent to act primarily as a fundraising organization to supplement the resources that are available to CRH in support of its mission. The Foundation Board is independent of the CRH Board. Although CRH does not control the timing or amount of receipts from the Foundation, it is anticipated that most of the funds raised will be directed to activities of CRH by either the Foundation or its donors. Because of these restrictions, the Foundation is considered a discrete component unit of CRH.

12<sup>th</sup> Avenue Arts Associates LLC (12<sup>th</sup> Ave Arts Associates) was formed in 2012 to construct and own the commercial and parking components of the 12<sup>th</sup> Avenue Arts project (Note 2) with construction being completed and the project placed into operation during 2014. 12<sup>th</sup> Ave Arts Associates' sole member is the Twelfth Avenue Arts Association (the Association). The Association was formed in 2012 as a nonprofit corporation in the State of Washington. The Association was formed with the exclusive purpose of supporting the mission of CRH and has a separate self-electing Board of Directors.

## COMMUNITY ROOTS HOUSING

### Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

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#### Note 1 - Continued

During 2019, CRH created Bonanza 1 LLLP to own and rehabilitate three apartment projects. The three apartment projects are the El Nor apartments, 18<sup>th</sup> Avenue apartments, and Ponderosa apartments. CRH sold the three projects to Bonanza 1 LLLP for a total consideration of \$17.96 million and recognized a gain on the sale of \$12.8 million. The consideration received by CRH from Bonanza 1 LLLP included notes receivable totaling \$13.9 million, the assumption of \$1.76 million in existing mortgages, and the remainder in cash.

During 2018, CRH and CHDA created 3 new entities as part of the Jazz House project. Imperial Jazz LLLP was created to facilitate the acquisition of land for future development purposes. The initial limited investor is an independent nonprofit organization with a 99.99% ownership interest. There are two initial general partners, Imperial Jazz GP LLC, of which CHDA is the sole member and Jazz House LLC, of which the separate nonprofit is the sole member. Imperial Jazz GP LLC and Jazz House LLC have a 0.006% and 0.004% ownership interest, respectively. Imperial Jazz LLLP is classified as a discrete component unit in the CRH financial statements.

During 2018, all remaining ownership interests in Oleta Apartments LP (Oleta) and Helen V Apartments, LLC (Helen V) were transferred to CHDA. As such, Oleta and Helen V changed from being reported as discrete component units in fiscal year 2017 to blended component units in fiscal year 2018. Prior to 2018, CRH had recognized an allowance for doubtful accounts of \$115,286 against the related party amounts receivable from Oleta. The allowance for doubtful accounts was eliminated in the transfer of ownership interests.

**Basis of Accounting** - The financial statements of CRH have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) applied to governmental units. These financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Contributions and grants are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**Cash and Cash Equivalents** - CRH considers all highly liquid temporary investments purchased with a maturity of three months or less at the acquisition date to be cash equivalents.

CRH's deposits and certificates of deposit are entirely covered by the federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool (the collateral pool) administered by the Washington Public Deposit Protection Commission. The FDIC insures the first \$250,000 of CRH's deposits at each financial institution with remaining balances insured by the collateral pool. As of December 31, 2019 and 2018, the carrying amount of CRH's demand deposits was \$5,488,665 and \$6,530,462, respectively, and was not materially different from the bank balances.

At December 31, 2019 and 2018, CRH had \$4,404,916 and \$3,947,590, respectively, in the Washington State's Local Government Investment Pool (LGIP). The LGIP is managed and operated by the Office of the State Treasurer (OST). The State Finance Committee is the administrator of the statute that created the pool and adopts appropriate rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually. The LGIP portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by GASB for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The amounts invested in the pool are measured at the net asset value per share of the pool shares held by CRH.

## COMMUNITY ROOTS HOUSING

### Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

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#### Note 1 - Continued

Certain cash balances are restricted for building improvements and other specific uses in accordance with debt and regulatory agreements and donor imposed restrictions. At December 31, 2019 and 2018, the restricted cash balances were held in deposits with the LGIP and other separate accounts as required by the agreements and donor imposed restrictions.

CRH has a Board Designated Operating Reserve for the purpose of strengthening CRH's liquidity and financial position. The intent is to make annual deposits from operating surplus. The Board Designated Operating Reserve is held in the LGIP. The balance at December 31, 2019 and 2018, of \$1,773,568 and \$1,244,931, respectively, is included in cash and cash equivalents.

**Accounts Receivable** - Accounts receivable consist primarily of rents due from tenants, grants due from grantors and amounts due from the limited partnerships and LLCs as described in Note 6. Annually, tenant receivables are analyzed and the allowance for doubtful accounts is adjusted. Other receivable allowances are established for uncertain collectibles.

**Notes Receivable and Notes Payable** - Many of the notes carry below market interest rates and/or contain provisions for deferral or forgiveness of interest or principal. Such notes and related interest amounts are recorded in the financial statements according to the terms of the notes. No adjustment to market rates has been made due to the compliance requirements that must be met for forgiveness or deferral to occur. Forgiveness of debt and related accrued interest for notes payable will be recorded as income in accordance with terms of the various loan agreements.

**Land, Buildings and Equipment** - CRH capitalizes assets with a cost greater than \$5,000 and an estimated useful life of one or more years. Land, buildings and equipment are recorded at cost or estimated fair value at the date of donation. Depreciation of buildings and equipment is recorded on a straight-line basis over their estimated useful lives of 5 to 40 years.

CRH reviews land, building and equipment for possible impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the future cash flows expected to result from the use of the asset and its eventual disposition. If these cash flows are less than the carrying amount of the asset, an impairment loss is recognized to write down the asset to its estimated fair value. No impairment losses were recognized in 2019 or 2018.

**Financing Costs** - Certain blended and discrete component units are not-for-profit or commercial entities that follow U.S. GAAP established by the Financial Accounting Standards Board (FASB). For those entities, financing costs are recorded as a deduction to the related debt liability on the balance sheets. Financing costs are amortized over the term of the applicable debt using the straight-line method. U.S. GAAP requires that the effective yield method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method. Amortization of financing costs are included as a component of interest expense on the statements of revenues, expenses and changes in net position.

## COMMUNITY ROOTS HOUSING

### Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

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#### Note 1 - Continued

**Investment in Limited Partnerships and LLCs** - CRH is the sole general partner and owns a 0.01 percent interest in two limited partnerships and is the managing member and owns a 0.01 percent interest in six LLCs. CRH owns a 51 percent interest in, and is the managing member of SOPI Village Manager LLC, who is the managing member, and 0.01 percent owner of SOPI Village LLC. CRH is also the sole member of CHH Squire Park LLC which is a 9.65 percent owner in Squire Park Holdings LLC. Squire Park Holdings LLC owns and operates a 60 unit apartment community located in Seattle, Washington. CHDA is the sole member of Imperial Jazz GP LLC, which has a 0.006% general partner interest in Imperial Jazz LLLP. CHDA is the sole member of CH TOD Management LLC, which has a 0.01% management member interest in CH TOD LLC. CHDA is the majority member of Bonanza 1 GP LLC and Union 24<sup>th</sup> Manager LLC, which have a 0.01% general partner interest in Bonanza 1 LLLP and Union and 24<sup>th</sup> Associates LLC, respectively. The remaining ownership interests in these entities are owned by unrelated third parties. CRH records its investment in these partnerships and limited liability companies using the equity method of accounting as it is the general partner or managing member and possesses significant influence in the operating and financial policies of the investees.

**Revenue Recognition** - Gross rent potential reflects gross rental revenue at full occupancy. CRH deducts vacancy loss from gross rent potential to reflect actual occupancy. Rental revenue is recognized monthly as earned. Development fee revenue is recognized over the development period using the percentage-of-completion method.

**Operating Revenues and Expenses** - Operating revenues include fees and charges from the ongoing operations of providing and developing affordable housing. Operating revenues also include operating subsidies and grants provided by the US Department of Housing and Urban Development (HUD). The use of this classification is based on guidance from HUD, one of the users of the financial statements. Operating expenses are those expenses that are directly incurred while in the operation of providing housing. This presentation results in an operating income that is higher than a nonoperating revenue presentation by the amount of the subsidies and/or grants. Overall it does not affect the presentation of the change in net assets in the statements of revenues, expenses and changes in net position, or the presentation of cash and cash equivalents in the statements of cash flows. All other revenues and expenses are considered nonoperating.

**Restricted Net Position** - Net position has been reported as restricted for building improvements and other purposes due to constraints that are either externally imposed by creditors, grantors, contributors or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. CRH's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Net position restricted for other purposes reported on the balance sheets also includes a total of \$112,181 and \$6,816 at December 31, 2019 and 2018 that is the noncontrolling owner's interest in the Africatown Plaza entities that are included as blended component units.

**Federal Income Tax** - CRH has been notified by the Internal Revenue Service that it is exempt from federal income taxes as an entity described in Section 115 of the Internal Revenue Code. CH Development Association, Elizabeth James Senior Housing, the Foundation, the Twelfth Avenue Arts Association and Central City Affordable Housing have been notified by the Internal Revenue Service that they are exempt from federal income taxes as entities described in Section 501(c)(3) of the Internal Revenue Code.

CRH's wholly-owned limited partnerships and LLCs that are reported as blended component units have no provision or benefit for income taxes included in these financial statements since taxable income or loss passes through to, and is reportable by, each partner or member individually, or if they are taxable entities then federal income tax is insignificant.

## COMMUNITY ROOTS HOUSING

### Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

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#### Note 1 - Continued

**Concentrations of Credit Risk** - All of CRH's properties are located in Seattle, Washington except for one property included immediately outside of the Seattle city limits. As such, CRH's operations are directly linked to the economic conditions in the Seattle area.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

#### Note 2 - Notes and Interest Receivable

Notes and interest receivable consisted of the following amounts due from affiliated limited partnerships and LLCs (Note 6) and other unrelated third parties as of December 31:

	<u>2019</u>	<u>2018</u>
<u>Broadway &amp; Pine LLC</u>		
Note receivable, interest at 5%, annual payments from available cash flow starting June 2007 through maturity on June 1, 2057.	\$ 180,000	\$ 180,000
<u>Bonanza 1 LLLP</u>		
Note receivable, compounding interest at 2.5%, annual payments from available cash flow through maturity on August 1, 2069.	8,284,064	
Note receivable, compounding interest at 1.0%, annual payments from available cash flow through maturity on August 1, 2069.	5,663,203	
<u>Holiday Apartments LP</u>		
Note receivable, interest at 3%, annual payments from available cash flow through maturity on December 1, 2061.	345,486	345,486
<u>Jefferson &amp; 12th LLC</u>		
Note receivable, interest at 5%, annual payments from available cash flow starting 2013 through maturity on May 1, 2063.	706,150	706,150
<u>Pantages Apartments LLC</u>		
Note receivable, interest at 6%, annual payments from available cash flow starting February 2006 through maturity on February 1, 2056.	68,393	68,393
<u>SOPi Village LLC</u>		
Note receivable, interest at 4%, annual payments from available cash flow starting in 2011 through maturity on December 31, 2061.	140,000	140,000

## COMMUNITY ROOTS HOUSING

### Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

#### Note 2 - Continued

	2019	2018
<u>Woodland Park Avenue LLC</u>		
Note receivable, interest at 0%, annual payments from available cash flow starting in 2009 through maturity on August 31, 2058.	140,000	140,000
<u>New Market Tax Credits Loans</u>		
Note receivable from 12th Avenue Arts NMTC Investment Fund II LLC, interest at 1.0%, quarterly interest payments beginning April 15, 2013, quarterly principal and interest payments beginning April 15, 2028 through maturity on October 1, 2052.		4,870,600
Notes receivable from 12th Avenue Arts Association LLC, interest at 1.0%, quarterly interest payments beginning April 15, 2013, quarterly principal and interest payments beginning April 15, 2028 through maturity on October 1, 2052.	6,645,035	
Note receivable from 12th Avenue Arts NMTC Investment Fund I LLC, interest at 1.409%, quarterly interest payments beginning April 15, 2013, quarterly principal and interest payments beginning April 15, 2028 through maturity on October 1, 2052.	7,926,840	7,926,840
Total principal	30,099,171	14,377,469
Accrued interest on the above notes	683,828	530,446
Total principal and interest	30,782,999	14,907,915
Less current portion of notes and interest receivable	(29,163)	(40,990)
<b>Noncurrent Portion</b>	<b>\$ 30,753,836</b>	<b>\$ 14,866,925</b>

In December 2012, CRH entered into a New Markets Tax Credit (NMTC) transaction to partially finance the construction of the 12<sup>th</sup> Avenue Arts cultural and civic center. The NMTC Program was designed to stimulate investment and economic growth in low-income communities by offering federal tax credit for Qualified Equity Investments (QEI) made through investment vehicles known as Community Development Entities (CDE). CDEs use capital derived from tax credits to make loans to projects in low-income areas.

As a part of the transaction, Twelfth Avenue Arts Development, LLC, a blended component unit of CRH, made two loans to two QEI's totaling \$12.80 million, which in turn, lent a total of \$17.95 million to two CDEs, which in turn was lent to 12<sup>th</sup> Avenue Arts Associates LLC, a discrete component unit.

## COMMUNITY ROOTS HOUSING

### Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

#### Note 2 - Continued

To earn the tax credit the QEI must remain invested in the CDE for a seven-year period that ended in December 2019. CRH and the NMTC investors have entered into put/call option agreements to take place at the end of the seven-year period. Under the agreements, the NMTC investors can exercise put options to sell all interest in the QEIs for \$1,000 each to CRH. If the NMTC investors do not exercise the put option within 90 days of the end of the seven-year period, CRH can exercise call options to purchase the interest of the QEIs at an appraised fair market value.

During December 2019, the NMTC investors liquidated the CDEs and distributed the loans receivable from 12<sup>th</sup> Avenue Arts Associates LLC to the QEIs. The NMTC investors then exercised the put option for one of the QEIs and sold the QEI to CRH. As a result of the transaction, CRH added two notes receivable totaling \$6.64 million to CRH's assets, removed the prior note receivable of \$4.87 million due from the QEI, and recorded a gain of \$1.77 million.

Subsequent to 2019, in March 2020, the NMTC investors exercised the put option for the second QEI and sold the QEI to CRH. As a result of the transaction, CRH added the two notes receivable totaling \$11.12 million to CRH's assets and removed the prior note receivable of \$7.93 million due from the QEI. CRH then took the necessary steps to forgive all of the notes receivable due from 12<sup>th</sup> Avenue Arts Associates LLC.

#### Note 3 - Land, Buildings and Equipment

Land, buildings and equipment activity consisted of the following:

	January 1, 2019	Increases	Decreases	Change in Component Units	Net Transfers	December 31, 2019
Nondepreciable assets-						
Land	\$ 21,944,996	\$ 31,404	\$ (3,236,435)	\$ -	\$ -	\$ 18,739,965
Pre-development costs	1,327,908	2,725,203	(612,550)		(915,141)	2,525,420
Depreciable assets-						
Buildings and facilities	76,060,868	1,460,697	(4,659,864)		899,653	73,761,354
Equipment and vehicles	3,371,366	163,996	(319,923)		15,488	3,230,927
Less accumulated depreciation	(45,192,670)	(2,367,293)	3,055,261			(44,504,702)
	<u>\$ 57,512,468</u>	<u>\$ 2,014,007</u>	<u>\$ (5,773,511)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53,752,964</u>

	January 1, 2018	Increases	Decreases	Change in Component Units	Net Transfers	December 31, 2018
Nondepreciable assets-						
Land	\$ 20,394,157	\$ -	\$ -	\$ 1,550,839	\$ -	\$ 21,944,996
Pre-development costs	1,466,682	1,386,951	(12,736)	(1,096,914)	(416,075)	1,327,908
Depreciable assets-						
Buildings and facilities	69,673,295	500,711		5,712,861	174,001	76,060,868
Equipment and vehicles	3,006,996	34,223	(12,907)	100,980	242,074	3,371,366
Less accumulated depreciation	(39,304,828)	(2,461,215)	12,907	(3,439,534)		(45,192,670)
	<u>\$ 55,236,302</u>	<u>\$ (539,330)</u>	<u>\$ (12,736)</u>	<u>\$ 2,828,232</u>	<u>\$ -</u>	<u>\$ 57,512,468</u>

## COMMUNITY ROOTS HOUSING

### Notes to Financial Statements

For the Years Ended December 31, 2019 and 2018

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#### Note 3 - Continued

During 2019, CRH sold the El Nor apartments, 18<sup>th</sup> Avenue apartments, and Ponderosa apartments to Bonanza 1 LLLP, a discrete component unit. The sale resulted in a net decrease of \$5,155,259 to land, buildings and equipment.

During 2018, the limited partner interests in Helen V Apartments LLC were transferred to CH Development Association, changing the limited partnership to a blended component unit. This transfer resulted in a net increase of \$2,474,292 to land, buildings and equipment.

During 2018, the limited partner interests in Oleta Apartments Limited Partnership were transferred to CH Development Association, changing the limited partnership to a blended component unit. This transfer resulted in a net increase of \$1,450,854 to land, buildings and equipment.

During 2018, CH TOD LLC transferred a portion of company interest to an investor member, changing the limited liability company to a discrete component unit. This transfer resulted in decrease of \$1,096,914 in pre-developments costs.

#### Note 4 - Leases

**Operating Leases** - CRH or an affiliate, as lessee, leases administrative office space, commercial space, garage space and housing space.

CRH, as lessee, has entered into a master commercial lease with Jefferson & 12th LLC for the ground-level commercial premises with annual lease payments of \$100 for a period of 20 years through September 2032.

Twelfth Avenue Arts Master Tenant LLC (Master Tenant) has signed master lease agreements with 12<sup>th</sup> Avenue Arts Associates, LLC to lease the 12<sup>th</sup> Avenue Arts Associates, LLC's commercial and garage units. Master Tenant is an entity controlled by CHH. Master Tenant subleases the commercial unit to third-party tenants and subleases the garage unit to the City of Seattle. The master lease agreements commenced in December 2012 and have terms that end 45 years after commencement in December 2057. Subsequent to 2019, Master Tenant was dissolved and the master leases were amended accordingly. The lease of the commercial condo was terminated, and 12<sup>th</sup> Avenue Arts Associates LLC has assumed all of the underlying leases with the commercial tenants. The garage unit is now leased directly by 12<sup>th</sup> Avenue Arts Associates LLC to the City of Seattle.

Rental expense under these leases totaled \$595,000 and \$581,000 for fiscal years 2019 and 2018, respectively.

Minimum lease payments under these leases are as follows and include the changes to the 12<sup>th</sup> Avenue Arts commercial and garage leases described above:

For the Year Ending December 31,

2020	\$ 122,610
2021	112
2022	112
2023	112
2024	112
Thereafter	<u>1,460</u>
	<u><u>\$ 124,518</u></u>



## COMMUNITY ROOTS HOUSING

### Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

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#### Note 4 - Continued

CRH, as lessor, leases apartments under noncancelable terms of less than one year. Additionally CRH leases commercial and parking space to other entities. Substantially all property is leased to a variety of lessees under short- and long-term lease agreements.

Minimum future lease revenue under the leases is as follows and include the changes to the 12<sup>th</sup> Avenue Arts commercial tenant leases described above:

For the Year Ending December 31,

2020	\$ 459,303
2021	450,764
2022	436,133
2023	444,037
2024	312,144
Thereafter	<u>1,458,903</u>
	<u><u>\$ 3,561,284</u></u>

**City of Seattle Ground Lease** - During 2012, Twelfth Avenue Arts Development, LLC, as lessee, entered into a ground lease with the City of Seattle for the parking garage land and condominium unit of the 12<sup>th</sup> Avenue Arts project (Note 2). Twelfth Avenue Arts Development, LLC assigned the lease to 12<sup>th</sup> Avenue Arts Associates, LLC in 2012 transferring all obligations under the lease other than the requirement to pay the minimum lease payments that which was retained by Twelfth Avenue Arts Development LLC. The lease term started in 2012 and extends through 2078.

Rental expense under this lease totaled \$120,000 and \$115,000 for fiscal years 2019 and 2018, respectively.

Subsequent to 2019, in February 2020, the ground lease was amended to transfer the minimum lease payment requirement from Twelfth Avenue Arts Development, LLC, to 12<sup>th</sup> Avenue Arts Associations LLC for the remainder of the lease term.

## COMMUNITY ROOTS HOUSING

### Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

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#### Note 5 - Notes Payable and Accrued Interest

Notes payable are generally direct borrowings debt or direct placements debt, nonrecourse, and secured by the respective properties and bear simple interest rates unless otherwise noted:

	<u>2019</u>	<u>2018</u>
Permanent conventional loans, bearing compound interest from 4.09% to 8.63% generally with principal and interest due monthly, to be repaid in full at various dates through 2036.	\$ 16,842,373	\$ 18,485,063
City of Seattle loans, bearing interest from 1% to 3%. Interest is generally deferred until maturity and in some instances may be forgiven if certain conditions are met over the term of the loan. The loans are to be repaid in full at various dates through 2053. Certain loans may be forgiven in their entirety if conditions are met through the extended maturity date.	23,073,127	24,333,092
City of Seattle land acquisition loan, bearing interest at 3% annually. Interest is deferred until maturity date. Loan matures October 30, 2021, at which point it will convert to a permanent loan, assuming certain criteria are met. If converted to permanent, the maturity date shall be October 30, 2071.	4,500,000	4,500,000
State of Washington loans, bearing interest from 0% to 2% generally payable annually, to be repaid in full at various dates through 2051. In some instances annual payments are deferred to the second half of the loan term.	8,917,073	9,543,843
Equity equivalent investment loan, interest only at 2.5% payable quarterly, to be repaid in full December 2019.	350,000	350,000
Equity equivalent investment loan, interest only at 2.0% payable quarterly, to be repaid in full October 17, 2021.	300,000	300,000
Tenant improvements loan bearing interest at 6%, interest only for the first year, amortized over the next five years, paid in full at maturity in February 2019.		3,478
Predevelopment line of credit with private foundation; maximum \$700,000 available, interest at 3% payable quarterly. Principal to be paid in full upon maturity on September 30, 2021.	690,000	175,000

## COMMUNITY ROOTS HOUSING

### Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

#### Note 5 - Continued

	2019	2018
Capacity building loan with private organization, bearing interest at 5.5%, payable quarterly. Principal and interest due in full upon maturity, January 30, 2021.	1,250,000	1,250,000
Bridge Loan for acquisition of Lake City land, bearing interest at 6.25%. Interest only payments due monthly. Principal and interest due September 2020.	1,971,900	1,971,900
Predevelopment line of credit with one lender; maximum of \$500,000 available, interest at 5.75% with principal to be paid in full upon maturity in October 2020.	187,067	287,147
Revolving line of credit with a commercial bank with a maximum of \$500,000 available and a variable interest rate calculated annually, currently 5%, due August 2020.		200,000
Total principal	58,081,540	61,399,523
Less current portion of notes payable	(3,701,639)	(2,277,905)
Less unamortized financing costs	(265,900)	(303,811)
<b>Noncurrent Portion</b>	<b><u>\$ 54,114,001</u></b>	<b><u>\$ 58,817,807</u></b>

Debt service requirements to maturity on these notes are as follows:

For the Year Ending December 31,	Principal	Interest
2020	\$ 3,701,639	\$ 1,049,774
2021	8,228,630	984,319
2022	1,006,641	929,247
2023	1,065,366	870,521
2024	1,126,369	808,172
2025 - 2029	8,800,140	2,924,305
2030 - 2034	11,209,640	1,314,939
2035 - 2039	11,342,417	709,780
2040 - 2044	5,679,956	367,254
2045 - 2049	2,004,138	74,990
2050 - 2054	3,916,604	1,536
	<b><u>\$ 58,081,540</u></b>	<b><u>\$ 10,034,837</u></b>

## COMMUNITY ROOTS HOUSING

### Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

#### Note 5 - Continued

Accrued interest payable on the above notes payable totaled \$4,078,652 and \$4,366,754 at December 31, 2019 and 2018, respectively and is presented separately from the above total for notes payable on the balance sheets. Interest expense on the above notes payable aggregated \$1,178,877 and \$1,232,238 for fiscal years 2019 and 2018, respectively and included the deferred interest on certain nonamortizing loans.

Substantially all notes payable are secured by deeds of trust on the related buildings. The notes payable to the City of Seattle and the State of Washington require rental of the apartment units to low or moderate income tenants at stipulated base rents with certain allowable increases, compliance with certain federal regulations as to discrimination and establishment of certain reserves for repairs and maintenance.

Long-term liability activity consisted of the following during 2019:

	Notes Payable	Accrued Interest Payable
	<u>                    </u>	<u>                    </u>
Beginning balance, December 31, 2018	\$ 61,095,712	\$ 4,366,754
Increases-		
CHH	515,000	
Accrual		1,140,966
Decreases-		
Payments	(2,076,604)	(1,199,420)
Assumption of mortgages by buyer of properties	(1,756,379)	(229,648)
Amortization of financing costs	37,911	
	<u>                    </u>	<u>                    </u>
<b>Ending Balance, December 31, 2019</b>	<b><u>\$ 57,815,640</u></b>	<b><u>\$ 4,078,652</u></b>

## COMMUNITY ROOTS HOUSING

### Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

#### Note 5 - Continued

Long-term liability activity consisted of the following during 2018:

	Notes Payable	Accrued Interest Payable
Beginning balance, December 31, 2017	\$ 56,727,821	\$ 4,169,353
Increases-		
CHH	1,625,000	
412 Apartments	56,644	
Accrual		1,179,185
Decreases-		
Payments	(1,375,000)	(1,222,389)
Amortization of financing costs	53,053	
Transfers from changes in reporting unit-		
Oleta Apartments LP	1,121,374	36,497
Helen V Apartments LLC	2,886,820	204,108
<b>Ending Balance, December 31, 2018</b>	<b><u>\$ 61,095,712</u></b>	<b><u>\$ 4,366,754</u></b>

#### Note 6 - Investments in Limited Partnerships and LLCs

CRH is the sole general partner and owns a 0.01 percent interest in two limited partnerships and is the managing member and owns a 0.01 percent interest in six LLCs. CRH owns a 51 percent interest in, and is the managing member of SOPI Village Manager LLC, who is the managing member, and 0.01 percent owner of SOPI Village LLC. CRH is also the sole member of CHH Squire Park LLC which is a 9.65 percent owner in Squire Park Holdings LLC. Squire Park Holdings LLC owns and operates a 60 unit apartment community located in Seattle, Washington. CHDA is the sole member of Imperial Jazz GP LLC, which has a 0.006% general partner interest in Imperial Jazz LLLP. CHDA is the sole member of CH TOD Management LLC, which has a 0.01% management member interest in CH TOD LLC. CHDA is the majority member of Bonanza 1 GP LLC, which has a 0.01% general partner interest in Bonanza 1 LLLP and the majority member of Union 24<sup>th</sup> Manager LLC, which has a 0.01% general partner interest in Union and 24<sup>th</sup> Associates LLC. The remaining ownership interests in these entities are owned by unrelated third parties.

During 2019 and 2018, CRH earned property management fees of \$678,070 and \$641,029 respectively, and limited partnership and LLC management fees of \$203,713 and \$196,124, respectively, from these entities. Additionally, CRH earned development and other fees totaling \$4,218,378 and \$2,095,153 in 2019 and 2018, respectively, from these entities.

## COMMUNITY ROOTS HOUSING

### Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

#### Note 6 - Continued

The following is a summary of selected financial information as of and for the year ended December 31, 2019, from the limited partnerships and LLCs described above and also represents condensed financial information for the aggregated discretely presented component units:

	December 31, 2019		
	Assets	Liabilities	Equity
Affordable Apartments Associates LLC	\$ 6,821,893	\$ 5,968,449	\$ 853,444
Broadway & Pine Apartments LLC	6,753,792	5,245,489	1,508,303
Capitol Hill Housing Foundation	722,796	39,891	682,905
Holiday Apartments Limited Partnership	5,626,203	5,494,190	132,013
Jefferson & 12th LLC	9,863,592	8,761,362	1,102,230
Pantages Apartments LLC	6,549,023	5,862,119	686,904
Silvian Apartments LLC	3,633,436	2,904,861	728,575
SOPV Village LLC	7,153,151	5,839,369	1,313,782
Woodland Park Avenue LLC	3,418,345	4,101,585	(683,240)
Twelfth Avenue Arts Association and Subsidiary	18,624,040	20,685,377	(2,061,337)
Twelfth Avenue Arts Housing LLLP	19,123,215	16,901,316	2,221,899
Union and 24th Associates LLC	30,579,765	22,261,015	8,318,750
CH TOD LLC	34,722,862	32,622,145	2,100,717
Imperial Jazz LLLP	3,002,032	2,971,235	30,797
Bonanza 1 LLLP	31,866,169	30,608,485	1,257,684
<b>Discretely Presented Component Units</b>	<b><u>\$ 188,460,314</u></b>	<b><u>\$ 170,266,888</u></b>	<b><u>\$ 18,193,426</u></b>
Squire Park Holdings LLC	\$ 10,807,948	\$ 8,014,214	\$ 2,793,734

## COMMUNITY ROOTS HOUSING

### Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

#### Note 6 - Continued

	Year Ended December 31, 2019	
	Total Revenues	Net Income (Loss)
Affordable Apartment Associates LLC	\$ 413,313	\$ (64,187)
Broadway & Pine Apartments LLC	466,868	(373,039)
Capitol Hill Housing Foundation	4,319,480	167,927
Holiday Apartments Limited Partnership	355,097	(66,124)
Jefferson & 12th LLC	541,070	(301,129)
Pantages Apartments LLC	512,239	(329,688)
Silvian Apartments LLC	479,817	60,287
SOPI Village LLC	306,375	(275,004)
Woodland Park Avenue LLC	213,140	(182,017)
Twelfth Avenue Arts Association and Subsidiary	581,282	(598,067)
Twelfth Avenue Arts Housing LLLP	1,108,341	(615,828)
Union and 24th Associates LLC	1,086,891	(823,945)
CH TOD LLC	178	(951)
Imperial Jazz LLLP		
Bonanza 1 LLLP	550,435	35,634
<b>Discretely Presented Component Units</b>	<b>\$ 10,934,526</b>	<b>\$ (3,366,131)</b>
Squire Park Holdings LLC	\$ 1,181,911	\$ 96,689

## COMMUNITY ROOTS HOUSING

### Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

#### Note 6 - Continued

The following is a summary of selected financial information as of and for the year ended December 31, 2018, from the limited partnerships and LLCs described above and represents condensed financial information for the aggregated discretely presented component units:

	December 31, 2018		
	Assets	Liabilities	Equity
Affordable Apartments Associates LLC	\$ 6,888,446	\$ 5,970,815	\$ 917,631
Broadway & Pine Apartments LLC	7,131,897	5,250,555	1,881,342
Capitol Hill Housing Foundation	700,998	186,001	514,997
Holiday Apartments Limited Partnership	5,703,699	5,505,562	198,137
Jefferson & 12th LLC	10,107,113	8,703,754	1,403,359
Pantages Apartments LLC	6,827,261	5,810,669	1,016,592
Silvian Apartments LLC	3,609,679	2,941,391	668,288
SOPI Village LLC	7,384,907	5,796,121	1,588,786
Woodland Park Avenue LLC	3,571,600	4,072,822	(501,222)
Twelfth Avenue Arts Association and Subsidiary	19,581,727	21,044,997	(1,463,270)
Twelfth Avenue Arts Housing LLLP	19,822,559	16,984,832	2,837,727
Union and 24th Associates LLC	30,731,177	29,754,270	976,907
CH TOD LLC	9,083,500	8,583,323	500,177
Imperial Jazz LLLP	2,585,315	2,554,518	30,797
<b>Discretely Presented Component Units</b>	<b><u>\$ 133,729,878</u></b>	<b><u>\$ 123,159,630</u></b>	<b><u>\$ 10,570,248</u></b>
Squire Park Holdings LLC	\$ 11,303,429	\$ 8,147,922	\$ 3,155,507



## COMMUNITY ROOTS HOUSING

### Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

#### Note 6 - Continued

	Year Ended December 31, 2018	
	Total Revenues	Net Income (Loss)
Affordable Apartment Associates LLC	\$ 341,202	\$ (178,691)
Broadway & Pine Apartments LLC	474,930	(329,244)
Capitol Hill Housing Foundation	1,910,238	168,857
Holiday Apartments Limited Partnership	348,196	(75,714)
Jefferson & 12th LLC	523,867	(325,709)
Pantages Apartments LLC	1,002,096	(387,879)
Silvian Apartments LLC	425,861	29,680
SOPH Village LLC	320,709	(245,770)
Woodland Park Avenue LLC	201,262	(195,170)
Twelfth Avenue Arts Association and Subsidiary	581,002	(352,589)
Twelfth Avenue Arts Housing LLLP	1,014,362	(602,330)
Union and 24th Associates LLC		(29,668)
CH TOD LLC	178	178
Imperial Jazz LLLP		
<b>Discretely Presented Component Units</b>	<b>\$ 7,143,903</b>	<b>\$ (2,524,049)</b>
Squire Park Holdings LLC	\$ 1,199,737	\$ 100,647

In addition to the notes receivable described in Note 2, CRH has recorded accounts receivable from the limited partnerships and LLCs described above with a net balance of \$4,054,862 and \$3,699,043 at December 31, 2019 and 2018, respectively. The accounts receivable balance at December 31, 2019 and 2018, is reported without an allowance for doubtful accounts, and is included in accounts receivable in the balance sheets.

CRH as the general partner or managing member has the option to purchase partnership property and right of first refusal at any time during the last 12 months of the initial 15-year low-income housing tax credit compliance period for each of the housing limited partnerships and LLCs.

As a general partner or managing member, as applicable, of the above partnerships and LLCs, CRH, directly or through CHDA, is liable for recourse liabilities. The limited partnership and LLC agreements provide for various obligations of the general partner or managing member, including an obligation to provide funds for any development and operating deficits. CRH has guaranteed the outstanding debt and certain performance obligations of 12th Avenue Arts Associates LLC as part of the 12th Avenue Arts project (Note 2). At December 31, 2019 and 2018, CRH had \$51,889,530 and \$46,413,467 of outstanding guarantees, respectively, and no advances under guarantees for either year.

## COMMUNITY ROOTS HOUSING

### Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

#### Note 7 - Blended Component Units

The following condensed combining information is presented as of and for the years ended December 31, 2019 and 2018 for blended components as summarized in a single column titled CRH in the basic financial statements.

Condensed combining information for the 2019 balance sheet is presented below:

	<u>CRH</u>	<u>Housing Blended Component Units</u>	<u>Non-Housing Blended Component Units</u>	<u>Eliminations in Blending</u>	<u>Total</u>
<b>Assets:</b>					
Current assets	\$ 15,586,538	\$ 916,578	\$ 347,492	\$ (4,852,598)	\$ 11,998,010
Noncurrent assets-					
Capital assets, net	35,899,009	17,286,271	567,684		53,752,964
Other	<u>18,854,002</u>	<u>17,097,968</u>	<u>9,502,432</u>	<u>(6,899,936)</u>	<u>38,554,466</u>
<b>Total Assets</b>	<b><u>\$ 70,339,549</u></b>	<b><u>\$ 35,300,817</u></b>	<b><u>\$ 10,417,608</u></b>	<b><u>\$ (11,752,534)</u></b>	<b><u>\$104,305,440</u></b>
<b>Liabilities:</b>					
Current liabilities	\$ 9,397,584	\$ 723,613	\$ 831,127	\$ (4,852,598)	\$ 6,099,726
Noncurrent liabilities	<u>39,032,525</u>	<u>19,935,238</u>	<u>62,971</u>		<u>59,030,734</u>
<b>Total Liabilities</b>	<b><u>\$ 48,430,109</u></b>	<b><u>\$ 20,658,851</u></b>	<b><u>\$ 894,098</u></b>	<b><u>\$ (4,852,598)</u></b>	<b><u>\$ 65,130,460</u></b>
<b>Net Position:</b>					
Invested in capital assets, net of related debt	\$ (3,147,362)	\$ (1,482,998)	\$ 567,684	\$ -	\$ (4,062,676)
Restricted	4,177,961	1,870,754	90,628		6,139,343
Unrestricted	<u>20,878,841</u>	<u>14,254,210</u>	<u>8,865,198</u>	<u>(6,899,936)</u>	<u>37,098,313</u>
<b>Total Net Position</b>	<b><u>\$ 21,909,440</u></b>	<b><u>\$ 14,641,966</u></b>	<b><u>\$ 9,523,510</u></b>	<b><u>\$ (6,899,936)</u></b>	<b><u>\$ 39,174,980</u></b>

## COMMUNITY ROOTS HOUSING

### Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

#### Note 7 - Continued

Condensed combining information for the 2019 statement of revenues, expenses and changes in net position is presented below:

	CRH	Housing Blended Component Units	Non-Housing Blended Component Units	Eliminations in Blending	Total
<b>Operating Revenues:</b>					
Tenant revenues	\$ 6,109,694	\$ 5,408,282	\$ 1,021,179	\$ (365,022)	\$ 12,174,133
Fees for services	2,757,360		47,264	(1,655,154)	1,149,470
Project development fees	4,218,378				4,218,378
Other	61,559	12,090	1,886		75,535
<b>Total Operating Revenues</b>	<b>13,146,991</b>	<b>5,420,372</b>	<b>1,070,329</b>	<b>(2,020,176)</b>	<b>17,617,516</b>
Operating expenses	11,571,900	3,583,393	1,017,083	(2,020,176)	14,152,200
Depreciation and amortization	1,107,394	1,204,159	37,333		2,348,886
<b>Total Operating Expenses</b>	<b>12,679,294</b>	<b>4,787,552</b>	<b>1,054,416</b>	<b>(2,020,176)</b>	<b>16,501,086</b>
<b>Operating Income</b>	<b>467,697</b>	<b>632,820</b>	<b>15,913</b>		<b>1,116,430</b>
Nonoperating revenues (expenses)-					
Contributions and grants	3,615,057	5,241	237,529		3,857,827
Grant to component unit	(44,313)				(44,313)
Gain on New Markets Tax					
Credit transaction	1,774,424				1,774,424
Interest income	281,252	10,863	163,109		455,224
Gain on disposition of assets	11,799,482	10,925,932	(9,839,175)		12,886,239
Interest expense	(587,096)	(591,781)			(1,178,877)
<b>Change in Net Position</b>	<b>17,306,503</b>	<b>10,983,075</b>	<b>(9,422,624)</b>		<b>18,866,954</b>
<b>Net Position:</b>					
Beginning of year	4,602,937	3,658,891	18,946,134	(6,899,936)	20,308,026
<b>End of Year</b>	<b>\$ 21,909,440</b>	<b>\$ 14,641,966</b>	<b>\$ 9,523,510</b>	<b>\$ (6,899,936)</b>	<b>\$ 39,174,980</b>

## COMMUNITY ROOTS HOUSING

### Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

#### Note 7 - Continued

Condensed combining information for the 2019 statement of cash flows is presented below:

	CRH	Housing Blended Component Units	Non-Housing Blended Component Units	Eliminations in Blending	Total
Net cash provided (used) by operating activities	\$ (2,722,990)	\$ 3,136,996	\$ (193,898)	\$ -	\$ 220,108
Net cash provided by noncapital financing activities	3,719,662	5,241	237,529		3,962,432
Net cash (used) provided by capital and related financing activities	17,746	(4,947,850)	361,262		(4,568,842)
Net cash provided (used) by investing activities	<u>(56,892)</u>	<u>1,318,858</u>	<u>(357,629)</u>		<u>904,337</u>
Net change in cash and cash equivalents	957,526	(486,755)	47,264		518,035
Cash and cash equivalents, beginning of year	<u>1,972,409</u>	<u>1,212,865</u>	<u>163,110</u>		<u>3,348,384</u>
<b>Cash and Cash Equivalents, End of Year</b>	<b><u>\$ 2,929,935</u></b>	<b><u>\$ 726,110</u></b>	<b><u>\$ 210,374</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 3,866,419</u></b>

# COMMUNITY ROOTS HOUSING

## Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

### Note 7 - Continued

Condensed combining information for the 2018 balance sheet is presented below:

	CRH	Housing Blended Component Units	Non-Housing Blended Component Units	Eliminations in Blending	Total
<b>Assets:</b>					
Current assets	\$ 9,158,514	\$ 1,047,154	\$ 186,107	\$ (2,179,438)	\$ 8,212,337
Noncurrent assets-					
Capital assets, net	34,875,454	22,393,259	243,755		57,512,468
Other	7,612,025	3,178,749	19,261,498	(6,899,936)	23,152,336
<b>Total Assets</b>	<b>\$ 51,645,993</b>	<b>\$ 26,619,162</b>	<b>\$ 19,691,360</b>	<b>\$ (9,079,374)</b>	<b>\$ 88,877,141</b>
<b>Liabilities:</b>					
Current liabilities	\$ 5,204,872	\$ 683,353	\$ 690,462	\$ (2,179,438)	\$ 4,399,249
Noncurrent liabilities	41,838,184	22,276,918	54,764		64,169,866
<b>Total Liabilities</b>	<b>\$ 47,043,056</b>	<b>\$ 22,960,271</b>	<b>\$ 745,226</b>	<b>\$ (2,179,438)</b>	<b>\$ 68,569,115</b>
<b>Net Position:</b>					
Invested in capital assets, net of related debt	\$ (5,293,476)	\$ 1,466,477	\$ 243,755	\$ -	\$ (3,583,244)
Restricted	3,693,076	3,178,749	69,890		6,941,715
Unrestricted	6,203,337	(986,335)	18,632,489	(6,899,936)	16,949,555
<b>Total Net Position</b>	<b>\$ 4,602,937</b>	<b>\$ 3,658,891</b>	<b>\$ 18,946,134</b>	<b>\$ (6,899,936)</b>	<b>\$ 20,308,026</b>

# COMMUNITY ROOTS HOUSING

## Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

### Note 7 - Continued

Condensed combining information for the 2018 statement of revenues, expenses and changes in net position is presented below:

	CRH	Housing Blended Component Units	Non-Housing Blended Component Units	Eliminations in Blending	Total
<b>Operating Revenues:</b>					
Tenant revenues	\$ 6,139,467	\$ 5,583,590	\$ 1,093,739	\$ (347,327)	\$ 12,469,469
Fees for services	2,763,784		30,466	(1,718,205)	1,076,045
Project development fees	2,095,153				2,095,153
Other	28,151	12,837	1,679		42,667
<b>Total Operating Revenues</b>	<b>11,026,555</b>	<b>5,596,427</b>	<b>1,125,884</b>	<b>(2,065,532)</b>	<b>15,683,334</b>
Operating expenses	10,677,901	3,233,470	1,079,430	(2,065,532)	12,925,269
Depreciation and amortization	1,101,832	1,328,272	31,084		2,461,188
<b>Total Operating Expenses</b>	<b>11,779,733</b>	<b>4,561,742</b>	<b>1,110,514</b>	<b>(2,065,532)</b>	<b>15,386,457</b>
<b>Operating Income (Loss)</b>	<b>(753,178)</b>	<b>1,034,685</b>	<b>15,370</b>		<b>296,877</b>
Nonoperating revenues (expenses)-					
Contributions and grants	1,064,383	221,752		(78,104)	1,208,031
Grant to component unit	(170,285)			78,104	(92,181)
Interest income	158,813	10,865	162,553		332,231
Loss on disposition of assets	2,975				2,975
Interest expense	(582,983)	(649,255)			(1,232,238)
<b>Change in Net Position Before Capital Contributions and Other Changes</b>	<b>(280,275)</b>	<b>618,047</b>	<b>177,923</b>		<b>515,695</b>
<b>Capital Contributions and Other Changes:</b>					
Change in component units	(501,252)	573,678		(930,523)	(858,097)
<b>Total Capital Contributions and Other Changes</b>	<b>(501,252)</b>	<b>573,678</b>		<b>(930,523)</b>	<b>(858,097)</b>
<b>Change in Net Position</b>	<b>(781,527)</b>	<b>1,191,725</b>	<b>177,923</b>	<b>(930,523)</b>	<b>(342,402)</b>
<b>Net Position:</b>					
Beginning of year	5,384,464	2,467,166	18,768,211	(5,969,413)	20,650,428
<b>End of Year</b>	<b>\$ 4,602,937</b>	<b>\$ 3,658,891</b>	<b>\$ 18,946,134</b>	<b>\$ (6,899,936)</b>	<b>\$ 20,308,026</b>

## COMMUNITY ROOTS HOUSING

### Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

#### Note 7 - Continued

Condensed combining information for the 2018 statement of cash flows is presented below:

	CRH	Housing Blended Component Units	Non-Housing Blended Component Units	Eliminations in Blending	Total
Net cash provided (used) by operating activities	\$ (2,026,774)	\$ 3,442,208	\$ (43,373)	\$ -	\$ 1,372,061
Net cash provided by noncapital financing activities	1,122,106	221,752			1,343,858
Net cash provided (used) by capital and related financing activities	508,838	(3,368,857)	(54,914)		(2,914,933)
Net cash provided (used) by investing activities	<u>(81,186)</u>	<u>(55,289)</u>	<u>104,444</u>		<u>(32,031)</u>
Net change in cash and cash equivalents	(477,016)	239,814	6,157		(231,045)
Cash and cash equivalents, beginning of year	<u>2,449,100</u>	<u>354,523</u>	<u>775,806</u>		<u>3,579,429</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><b>\$ 1,972,084</b></u>	<u><b>\$ 594,337</b></u>	<u><b>\$ 781,963</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 3,348,384</b></u>

#### Note 8 - Employee Benefits

CRH contributes to a Simplified Employee Pension plan (SEP), a defined contribution benefit plan, on behalf of all eligible employees. CRH's contribution is discretionary. Contributions for 2019 and 2018 were 2 percent of gross wages annually and were in the amounts of \$101,910 and \$96,453, respectively. As of December 31, 2019 and 2018, accrued pension costs, including employee deferrals, totaled \$124,439 and \$113,632, respectively. There were no Plan forfeitures for either years ended December 31, 2019 and 2018.

#### Note 9 - Acquisitions and Development

During 2019, CRH was engaged in the following acquisition and development projects:

**Liberty Bank Building Apartments** - During 2019, Union and 24<sup>th</sup> Associates LLC completed construction and leased up the property.

**Capitol Hill Transit Oriented Development (aka Station House)** - During 2019, CRH closed on construction financing and began construction of 110 apartments. Construction was completed in February 2020 and lease up is expected to be complete later in 2020.

## COMMUNITY ROOTS HOUSING

### Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

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#### Note 9 - Continued

**White Center HUB** - In connection with several White Center community organizations, CRH continued to explore development of affordable housing and a community resource center on county owned property in White Center.

**Lake City Development** - During 2019, CRH continued to explore different development scenarios, including affordable or work force housing.

**Africatown Plaza Development** - During 2019, CRH, in partnership with Africatown Community Land Trust (ACLT) were awarded Office of Housing funding in December 2019.

**Bonanza** - During 2019, CRH closed on construction financing for the rehabilitation of three properties, one of which was completed in 2019 and the others are expected to be completed mid-2020.

**CHP-1** - CRH originally intended to refinance and rehabilitate four properties (Centennial, Boylston Howell, Bremer, and John Carney) into one LIHTC portfolio transaction (CHP-1). In 2018 CRH received City of Seattle Office of Housing funds for this project and applied for FEMA funds. CHP-1 did not receive a LIHTC bond cap allocation in the 2019 fall round and is being restructured without LIHTC equity.

**Seattle Central Annex Development** - CRH, in partnership with nonprofit organization Youth Care, intends to develop approximately 75 units of affordable housing and transitional housing and education/health services for homeless youth on property owned by Seattle Central College. The property was acquired in early 2020.

**Eldridge Development** - CRH was selected as the developer for an approximately 80-unit senior LGBTQ affirming affordable housing project on Capitol Hill, partnering with nonprofit organization Generations Aging with Pride. The site is currently owned by Seattle Central College but is to be acquired by Sound Transit as part of a land swap. The project was awarded Office of Housing funding in December 2019.

**Jazz House Development** - CRH, in partnership with Jazz ED, a nonprofit organization, acquired property at Hill and 22<sup>nd</sup> Ave South with the intent of developing 90 units of affordable housing on top of a performing arts education space in the Rainier Valley. CRH has begun design of the project.

**Union and 14th** - CRH is developing the site as 126-unit affordable work force housing project. In 2019 CRH was awarded a Wood Innovation Grant from US Forest Service for design of a mass timber residential building.

**Yesler Family** - CRH, in partnership with Seattle Chinatown International District Preservation Authority, began predevelopment of an approximately 158-unit affordable housing project known as Yesler Family on land to be leased from Seattle Housing Authority.



## **COMMUNITY ROOTS HOUSING**

### **Notes to Financial Statements For the Years Ended December 31, 2019 and 2018**

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#### **Note 10 - Contingencies**

CRH is exposed to risks commonly associated with the ownership and rental of real property. Risks including bodily injury, property damage by fire and forces of nature; loss of assets from theft and employee dishonesty; and liability for employees' conduct are mitigated by a combination of insurance, training and policies and procedures. Management believes that those risks are immaterial to the financial statements.

In connection with various federal, state, and city grants and loan programs, CRH is obligated to operate in accordance with those grant and loan requirements and is subject to audit by those agencies. In cases of noncompliance, the agencies involved may require that CRH refund payment of program funds. The amount, if any, of expenses which may be disallowed by the agencies cannot be determined at this time, although CRH expects such amounts, if any, to be immaterial.

#### **Note 11 - Risk Management**

CRH has obtained insurance coverage through a commercial insurance broker with the exception of workers compensation insurance and unemployment insurance which are provided by agencies of the State of Washington. Property loss coverage is on a replacement basis with a deductible of \$10,000 per occurrence. Settled claims have not exceeded coverage purchased during the past three years.

## **SUPPLEMENTARY INFORMATION**

# COMMUNITY ROOTS HOUSING

## Schedule of Departmental Operations For the Year Ended December 31, 2019

	Property Operations	Administration and Management	Total
<b>Receipts:</b>			
Rents	\$ 12,851,680	\$ -	\$ 12,851,680
Vacancy	(664,092)		(664,092)
Tenant fees	218,877		218,877
Development fees		4,218,378	4,218,378
Fees for services		2,804,624	2,804,624
Contributions and grants		1,542,632	1,542,632
Other income	15,692	59,844	75,536
<b>Total Receipts</b>	<b>12,422,157</b>	<b>8,625,478</b>	<b>21,047,635</b>
<b>Expenditures:</b>			
On-site management expense	1,865,572		1,865,572
Office salaries, benefits and payroll taxes		5,002,961	5,002,961
Utilities	1,371,890		1,371,890
Professional fees	588,790	406,331	995,121
Insurance	367,452	58,850	426,302
Property management fees	1,355,273		1,355,273
Repairs, maintenance and improvements	2,750,414	38,495	2,788,909
Debt service	2,023,405		2,023,405
Reserves	617,050		617,050
Other	1,202,311	1,296,400	2,498,711
<b>Total Expenditures</b>	<b>12,142,157</b>	<b>6,803,037</b>	<b>18,945,194</b>
<b>Operating Income</b>	<b>280,000</b>	<b>1,822,441</b>	<b>2,102,441</b>
<b>Reconciliation to Statement of Income:</b>			
Depreciation	(2,276,739)	(72,149)	(2,348,888)
Reserves additions	617,050		617,050
Interest income	74,272	381,582	455,854
Interest expense	(1,050,576)		(1,050,576)
Other income (expenses)	1,841,316	581,408	2,422,724
Fixed asset additions from operations	477,410		477,410
Expenses paid from reserves	(403,257)		(403,257)
Debt service payments	2,023,405		2,023,405
Frontline and bookkeeping charges	492,273	(492,273)	
Management fees	1,350,249	(1,350,249)	
Gain on New Market Tax Credit transaction		1,774,424	1,774,424
Gain on disposition of property		12,796,367	12,796,367
<b>Net Income</b>	<b>\$ 3,425,403</b>	<b>\$ 15,441,551</b>	<b>\$ 18,866,954</b>

See independent auditor's report.

**COMMUNITY ROOTS HOUSING**

**Schedule of Property Operations  
For the Year Ended December 31, 2019**

	18th Avenue*	410 11th E.	Berneva	Boylston/Howell	Bremer	Brewster	Broadway	Burke Gilman Gardens	Byron/Wetmore	Casa di Cinque**	Centennial	CHDA Lake City LLP
<b>Receipts:</b>												
Rents	\$ 72,385	\$ 56,988	\$ 117,210	\$ 328,506	\$ 477,477	\$ 317,570	\$ 69,600	\$ 205,341	\$ 142,612	\$ 23,625	\$ 356,200	\$ 152,290
Vacancy	(1,510)	(6,886)	(10,222)	(11,833)	(30,778)	(32,809)		(2,134)	(1,539)	(9,870)	(26,800)	(2,576)
Tenant fees	809	537	2,470	23,230	7,042	13,764	474	5,084	2,278	198	19,570	480
Other income			405			293		456	220			
<b>Total Receipts</b>	<b>71,684</b>	<b>50,639</b>	<b>109,863</b>	<b>339,903</b>	<b>453,741</b>	<b>298,818</b>	<b>70,074</b>	<b>208,747</b>	<b>143,571</b>	<b>13,953</b>	<b>348,970</b>	<b>150,194</b>
<b>Expenditures:</b>												
On-site management expense	23,841	9,559	44,556	73,963	66,099	63,134	7,918	22,117	22,962	1,813	62,013	7,134
Utilities	7,197	7,170	17,565	48,504	43,815	40,482	5,246	38,323	29,219	1,623	39,759	12,500
Professional fees	7,836	6,120	11,798	11,500	15,861	13,901	5,859	8,116	11,162	1,282	12,999	10,194
Insurance	4,056	2,160	4,705	13,274	13,784	10,808	1,960	6,189	4,870	211	10,014	3,150
Property management fees	3,693	6,363	10,652	50,040	79,907	56,800	10,224	30,405	26,427	3,078	29,589	6,703
Repairs, maintenance and improvements	12,637	13,858	55,874	74,502	110,323	86,224	10,298	38,582	39,038	1,239	66,292	14,018
Debt service	16,637		10,366	57,928	86,403	26,789	8,100	23,017	5,100	3,904	112,851	
Reserves	8,456	10,500	3,355	10,000	23,920	26,400	6,000	7,500	7,000		13,000	
Other	8,564	19,268	3,206	9,751	23,923	31,332	1,499	10,005	3,895	(1,437)	16,593	29,954
<b>Total Expenditures</b>	<b>92,917</b>	<b>74,998</b>	<b>162,077</b>	<b>349,462</b>	<b>464,035</b>	<b>355,870</b>	<b>57,104</b>	<b>184,254</b>	<b>149,673</b>	<b>11,713</b>	<b>363,110</b>	<b>83,653</b>
<b>Operating Income (Loss)</b>	<b>(21,233)</b>	<b>(24,359)</b>	<b>(52,214)</b>	<b>(9,559)</b>	<b>(10,294)</b>	<b>(57,052)</b>	<b>12,970</b>	<b>24,493</b>	<b>(6,102)</b>	<b>2,240</b>	<b>(14,140)</b>	<b>66,541</b>
<b>Reconciliation to Statement of Income:</b>												
Depreciation and amortization		(8,451)	(24,627)	(76,615)	(57,304)	(91,441)	(9,991)	(75,086)	(46,004)		(56,385)	(2,222)
Reserves additions	8,456	10,500	3,355	10,000	23,920	26,400	6,000	7,500	7,000		13,000	
Reserve transfers						(170,808)						
Interest income - restricted	62	3,691	193	2,432	3,478	12,690	1,383	3,292	548	140	2,335	
Interest and financial expenses	(11,968)	2,599	348	(9,853)	(53,671)	5,129	(4,374)	9,682	1,945	(3,904)	(63,812)	(10,693)
Other income (expense)				4,585	2,515	(2,645)			3,764		7,168	
Fixed asset additions from operations												
Expenses paid from reserves		(4,813)		(25,867)	(17,149)			(10,329)			(15,436)	
Debt service payments	16,637		10,366	57,928	86,403	26,789	8,100	23,017	5,100	3,904	112,851	
Frontline and bookkeeping charges	3,560	6,924	9,117	15,696	22,641	17,524	6,559	10,214	9,117	1,584	15,696	6,864
Management fees	3,693	6,363	10,652	50,040	79,907	56,800	10,224	30,405	26,427	3,078	29,589	6,703
<b>Net Income (Loss)</b>	<b>\$ (793)</b>	<b>\$ (7,546)</b>	<b>\$ (42,810)</b>	<b>\$ 18,787</b>	<b>\$ 80,446</b>	<b>\$ (176,614)</b>	<b>\$ 30,871</b>	<b>\$ 23,188</b>	<b>\$ 1,795</b>	<b>\$ 7,042</b>	<b>\$ 30,866</b>	<b>\$ 67,193</b>

\* Includes 7 months of activity during 2019

\*\* Includes 3 months of activity during 2019

See independent auditor's report.

COMMUNITY ROOTS HOUSING

Schedule of Property Operations (Continued)  
For the Year Ended December 31, 2019

	Central City Affordable Housing	Devonshire	El Nor*	Elizabeth James Senior Housing	Fleming LP	Fredonia	Helen V	Joe Black	Gilman Court LP	Harrison	Hazel Plaza	Holden Vista	Jefferson & 12th Commercial	John Carney	Larned Apartments LP
<b>Receipts:</b>															
Rents	\$ 231,438	\$ 605,052	\$ 352,450	\$ 647,809	\$ 355,015	\$ 331,758	\$ 735,546	\$ 350,893	\$ 327,556	\$ 398,204	\$ 432,579	\$ 251,418	\$ 134,400	\$ 265,209	\$ 357,532
Vacancy	(2,129)	(25,133)	(13,615)	(18,976)	(28,558)	(1,078)	(40,264)	(46,783)	(1,684)	(1,357)	(23,256)	(29,024)		(23,191)	(7,748)
Tenant fees	7	22,595	1,288	3,434	5,571	2,762	6,427	4,760	6,054	4,016	2,027	525		4,761	7,905
Other income			344	8,587	368		2,169				88				297
<b>Total Receipts</b>	<b>229,316</b>	<b>602,514</b>	<b>340,467</b>	<b>640,854</b>	<b>332,396</b>	<b>333,442</b>	<b>703,878</b>	<b>308,870</b>	<b>331,926</b>	<b>400,863</b>	<b>405,438</b>	<b>222,919</b>	<b>134,400</b>	<b>246,779</b>	<b>357,986</b>
<b>Expenditures:</b>															
On-site management expense	29,084	120,082	56,414	156,016	51,411	17,466	87,067	48,768	64,805	35,967	43,948	47,081	177	54,697	45,078
Utilities	37,488	76,810	37,530	61,856	44,937	26,415	49,309	49,573	43,606	62,900	24,988	29,180	1,242	27,618	42,836
Professional fees	20,817	19,527	18,008	30,480	24,620	7,591	24,675	11,879	18,779	19,626	8,603	17,281	7,406	16,083	14,702
Insurance	5,404	16,615	21,962	24,044	9,588	5,530	11,763	9,584	11,616	11,700	5,401	5,635	2,349	7,603	8,364
Property management fees	9,399	100,887	47,262	36,000	42,584	55,268	107,011	51,191	53,432	23,241	29,532	12,806	5,893	37,694	50,268
Repairs, maintenance and improvements	55,410	98,240	25,782	177,371	78,278	35,076	63,120	356,022	62,132	45,699	29,283	70,409	294	87,244	66,274
Debt service	44,489	9,080	46,614	121,832	82,227	68,196	132,065	36,000	19,392	118,020	109,546	15,994	3,074	35,700	
Reserves	20,814	101,500	19,250	33,652	13,300	7,428	26,196	4,320	16,000	11,044	35,882	6,960	3,600	5,800	21,920
Other	4,197	25,355	7,010	36,533	12,071	33,991	10,743	24,618	6,760	10,811	8,068	5,889	12,375	9,481	17,370
<b>Total Expenditures</b>	<b>227,102</b>	<b>568,096</b>	<b>279,832</b>	<b>677,784</b>	<b>359,016</b>	<b>256,961</b>	<b>511,949</b>	<b>591,955</b>	<b>296,522</b>	<b>339,008</b>	<b>295,251</b>	<b>211,235</b>	<b>36,410</b>	<b>281,920</b>	<b>266,812</b>
<b>Operating Income (Loss)</b>	<b>2,214</b>	<b>34,418</b>	<b>60,635</b>	<b>(36,930)</b>	<b>(26,620)</b>	<b>76,481</b>	<b>191,929</b>	<b>(283,085)</b>	<b>35,404</b>	<b>61,855</b>	<b>110,187</b>	<b>11,684</b>	<b>97,990</b>	<b>(35,141)</b>	<b>91,174</b>
<b>Reconciliation to Statement of Income:</b>															
Depreciation and amortization	(56,224)	(63,431)	(122)	(91,324)	(99,200)	(40,932)	(133,685)	(56,799)	(123,473)	(84,646)	(83,716)	(16,770)	(18,445)	(46,326)	(89,894)
Reserves additions	20,814	101,500	19,250	33,652	13,300	7,428	26,196	4,320	16,000	11,044	35,882	6,960	3,600	5,800	21,920
Reserve transfers		(170,808)													
Interest income - restricted	317	10,830	3,418	69	35	4,522	248	1,565	1,036	965	414	483	52	1,685	727
Interest and financial expenses	(16,640)	6,225	(32,146)	(60,746)	(37,878)	(39,140)	(88,444)	(19,263)	2,543	(85,987)	(73,239)	(3,798)	404	(11,878)	8,733
Other income (expense)		(6,161)		7,584	(7,487)	3,726	(6,705)	247,277	711	(16,869)	(1,674)		(10,479)		(1,529)
Fixed asset additions from operations				25,470	6,010			252,227	5,841						
Expenses paid from reserves		(15,123)		(25,596)		(8,539)		(13,720)	(11,581)						
Debt service payments	44,489	9,080	46,614	121,832	82,227	68,196	132,065	36,000	19,392	118,020	109,546	15,994	3,074	35,700	
Frontline and bookkeeping charges	6,561	27,392	7,651	13,878	17,889	9,270	10,525	13,503	14,021	12,133	7,171	7,171	5,036	14,752	16,793
Management fees	9,399	100,887	47,262	36,000	42,584	55,268	101,987	51,191	53,432	23,241	29,532	12,806	5,893	37,694	50,268
<b>Net Income (Loss)</b>	<b>\$ 10,930</b>	<b>\$ 34,809</b>	<b>\$ 152,562</b>	<b>\$ 23,889</b>	<b>\$ (9,140)</b>	<b>\$ 136,280</b>	<b>\$ 234,116</b>	<b>\$ 233,216</b>	<b>\$ 13,326</b>	<b>\$ 39,756</b>	<b>\$ 134,103</b>	<b>\$ 34,530</b>	<b>\$ 87,125</b>	<b>\$ 2,286</b>	<b>\$ 98,192</b>

\* Includes 7 months of activity during 2019

See independent auditor's report.

**COMMUNITY ROOTS HOUSING**

**Schedule of Property Operations (Continued)  
For the Year Ended December 31, 2019**

	Lincoln Court	Mary Ruth Manor	Maxwell	Melrose	Miller Park	Oleta	Park Hill	Ponderosa at Madison*	Seneca	Twelfth AA Master Tenant	Liberty Bank Commercial	Union James Apartments	Villa Apartments	Total
<b>Receipts:</b>														
Rents	\$ 296,463	\$ 503,183	\$ 48,144	\$ 287,132	\$ 152,052	\$ 346,572	\$ 459,328	\$ 129,444	\$ 360,955	\$ 944,556	\$ 17,371	\$ 463,859	\$ 745,958	\$ 12,851,680
Vacancy	(8,634)	(12,142)		(11,555)	(10,145)	(47,005)	(14,364)	(18,515)	(3,484)	(39,030)	(8,718)	(67,607)	(17,140)	(664,092)
Tenant fees	12,366	2,348	1,281	631	5,340	3,664	7,139	622	3,374	58		2,501	31,485	218,877
Other income	347					200		36	50	21		1,375	436	15,692
<b>Total Receipts</b>	<b>300,542</b>	<b>493,389</b>	<b>49,425</b>	<b>276,208</b>	<b>147,247</b>	<b>303,431</b>	<b>452,103</b>	<b>111,587</b>	<b>360,895</b>	<b>905,605</b>	<b>8,653</b>	<b>400,128</b>	<b>760,739</b>	<b>12,422,157</b>
<b>Expenditures:</b>														
On-site management expense	61,940	87,287	6,319	44,541	29,747	49,867	79,851	34,511	47,509	12,557		56,449	91,824	1,865,572
Utilities	38,366	31,453	4,744	36,173	17,790	49,954	60,057	13,762	40,234	22,939		37,850	110,350	1,371,890
Professional fees	20,374	16,307	5,634	11,542	7,479	28,148	13,257	11,692	19,149	14,970		23,499	35,879	588,790
Insurance	8,499	7,017	1,709	7,858	4,712	9,575	13,887	8,132	11,076	28,550		8,514	23,883	367,452
Property management fees	11,654	16,407	4,671	35,794	13,888	17,126	73,688	8,413	55,152	44,165		14,973	82,993	1,355,273
Repairs, maintenance and improvements	54,615	29,023	10,386	40,685	21,470	105,431	102,365	29,390	93,150	171,232		164,772	154,082	2,750,414
Debt service	95,423	161,284	4,644	32,688	22,385	95,578	53,820		56,409			100,430	194,714	2,023,405
Reserves	17,400	26,566	1,440	5,600	10,461	11,900	10,000	9,107	9,189	16,000		9,356	46,234	617,050
Other	8,220	6,710	1,345	7,872	4,037	15,799	31,004	4,776	5,912	683,203		14,070	17,783	1,202,311
<b>Total Expenditures</b>	<b>316,491</b>	<b>382,054</b>	<b>40,892</b>	<b>222,753</b>	<b>131,969</b>	<b>383,378</b>	<b>437,929</b>	<b>119,783</b>	<b>337,780</b>	<b>993,616</b>	<b>39,138</b>	<b>429,913</b>	<b>757,742</b>	<b>12,142,157</b>
<b>Operating Income (Loss)</b>	<b>(15,949)</b>	<b>111,335</b>	<b>8,533</b>	<b>53,455</b>	<b>15,278</b>	<b>(79,947)</b>	<b>14,174</b>	<b>(8,196)</b>	<b>23,115</b>	<b>(88,011)</b>	<b>(30,485)</b>	<b>(29,785)</b>	<b>2,997</b>	<b>280,000</b>
<b>Reconciliation to Statement of Income:</b>														
Depreciation and amortization	(78,633)	(88,621)	(6,913)	(33,391)	(37,799)	(85,623)	(40,634)		(116,819)	(37,333)		(29,204)	(247,941)	(2,276,739)
Reserves additions	17,400	26,566	1,440	5,600	10,461	11,900	10,000	9,107	9,189	16,000		9,356	46,234	617,050
Reserve transfers	1,400	579	737	3,009	4,195	797	341,616		73			580	1,475	74,272
Interest and financial expenses	(70,935)	(103,573)	(553)	(10,756)	(5,273)	(61,692)	(33,605)		(43,042)	52,321		(74,020)	(96,916)	(1,050,576)
Other income (expense)	2,009	6,673		(5,008)		7,570	4,838	2,151	(3,717)	353,124		1,100	(10,199)	1,841,316
Fixed asset additions from operations						10,829	27,890		23,121	69,583		56,439		477,410
Expenses paid from reserves	(6,231)	(25,038)		(13,303)	(3,922)	(22,032)	(407)					(184,171)		(403,257)
Debt service payments	95,423	161,284	4,644	32,688	22,385	95,578	53,820		56,409			100,430	194,714	2,023,405
Frontline and bookkeeping charges	16,866	12,981	6,074	17,297	7,122	19,024	17,297	17,297	18,161	4,497		14,707	31,708	492,273
Management fees	11,654	16,407	4,671	35,794	13,888	17,126	73,688	8,413	55,152	44,165		14,973	82,993	1,350,249
<b>Net Income (Loss)</b>	<b>\$ (26,996)</b>	<b>\$ 118,593</b>	<b>\$ 18,633</b>	<b>\$ 85,385</b>	<b>\$ 26,335</b>	<b>\$ (86,470)</b>	<b>\$ 472,936</b>	<b>\$ 29,330</b>	<b>\$ 21,642</b>	<b>\$ 414,346</b>	<b>\$ 1,207,794</b>	<b>\$ (119,595)</b>	<b>\$ 5,065</b>	<b>\$ 3,425,403</b>

\* Includes 7 months of activity during 2019

See independent auditor's report.

## COMMUNITY ROOTS HOUSING

### Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2019

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Identifying Number	Passed Through to Subrecipients	Federal Disbursements/ Expenditures
<b>US Department of Housing and Urban Development:</b>				
Pass-Through Program from-				
Housing Authority of the City of Bremerton:				
Section 8 Housing Assistance Payments Program - New Construction and Substantial Rehabilitation	14.182	WA190065002	\$ -	\$ 57,553
Total 14.182				57,553
Pass-Through Program from-				
Housing Authority of the City of Bremerton:				
Section 8 Housing Assistance Payments Program	14.195	WA19M000017		172,347
Section 8 Housing Assistance Payments Program	14.195	WA19L000022		339,334
Section 8 Housing Assistance Payments Program	14.195	WA19L0000040		558,105
Section 8 Housing Assistance Payments Program	14.195	WA19M000141		82,604
Section 8 Housing Assistance Payments Program	14.195	WA19M000101		239,689
Section 8 Housing Assistance Payments Program	14.195	WA190080005		321,039
Section 8 Housing Assistance Payments Program	14.195	WA19L000027		343,579
Section 8 Housing Assistance Payments Program	14.195	WA19M000202		165,570
State of Washington:				
Section 8 Housing Assistance Payments Program	14.195	Unknown		57,333
Section 8 Housing Assistance Payments Program	14.195	15-46221-004		66,861
Total 14.195				2,346,461
Total Section 8 Project Based Cluster				2,404,014
City of Seattle:				
Community Development Block Grants/Entitlement Grants-				
410 Apartments*	14.218	Unknown		30,100
Bremer Apartments*	14.218	Unknown		102,630
Fredonia Apartments*	14.218	Unknown		409,760
Gale Place Apartments*	14.218	Unknown		286,400
Lincoln Court Apartments*	14.218	Unknown		1,203,904
Park Hill Apartments*	14.218	Unknown		282,303
Helen V Apartments*	14.218	Unknown		735,560
Union James Apartments*	14.218	Unknown		397,635
Total 14.218				3,448,292
Rental Rehabilitation Program-				
Gale Place Apartments*	14.230	Unknown		480,000
Park Hill Apartments*	14.230	Unknown		122,088
Total 14.230				602,088
City of Seattle:				
HOME Investment Partnerships Program*	14.239	Unknown		492,292
State of Washington:				
HOME Investment Partnerships Program*	14.239	04-40403-004		1,000,000
Total 14.239				1,492,292
Local Initiatives Support Coalition:				
Section 4 Capacity Building for Community Development and Affordable Housing	14.252	Unknown		42,500
Total 14.252				42,500
<b>Total US Department of Housing and Urban Development</b>				<b>7,989,186</b>

See accompanying notes to schedule of expenditures of federal awards and independent auditor's report.

## COMMUNITY ROOTS HOUSING

### Schedule of Expenditures of Federal Awards (Continued) For the Year Ended December 31, 2019

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Federal Disbursements/ Expenditures</u>
<b>U.S. Department of Energy:</b>				
Pass-Through Program from-				
City of Seattle:				
Bonneville Power Administration	81.F17- 53104-404	F17-53104-404		50,218
Total 81.F17-53104-404				50,218
Pass-Through Program from-				
City of Seattle:				
Federal Department of Energy	81.042	Unknown		96,474
Total 81.042				96,474
<b>U.S. Department of Energy</b>				<b>146,692</b>
<b>US Department of Health and Human Services:</b>				
Pass-Through Program from-				
City of Seattle:				
Federal Health and Human Services (LIHEAP)	93.568	Unknown		11,826
<b>Total US Department of Health and Human Services</b>				<b>11,826</b>
<b>Total Federal Expenditures</b>			<b>\$ -</b>	<b>\$ 8,147,704</b>

\* Denotes outstanding loan

See accompanying notes to schedule of expenditures of federal awards and independent auditor's report.



## CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

### Notes to Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2019

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#### Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant and loan activity of Community Roots Housing (CRH) under programs of the federal government for the year ended December 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of CRH, it is not intended to and does not present the financial position, changes in net assets, or cash flows of CRH.

#### Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, and the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. CRH did not utilize the de minimis indirect cost rate during the year ended December 31, 2019.

#### Note 3 - Loans Outstanding

The Organization had the following loan balances outstanding at December 31, 2019. The loan balances outstanding are also included in the federal expenditures presented in the Schedule.

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Outstanding</u>
Community Development Block Grants/Entitlement Grants	14.218	\$ 3,448,292
Rental Rehabilitation Program	14.230	602,088
HOME Investment Partnerships Program	14.239	1,492,292

## **SINGLE AUDIT REPORTS**

**Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in  
Accordance With *Government Auditing Standards***

**Independent Auditor's Report**

**To the Board of Directors  
Community Roots Housing  
Seattle, Washington**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of Capitol Hill Housing Improvement Program (CRH), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise CRH's basic financial statements, and have issued our report thereon dated June 26, 2020.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

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



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## COMPLIANCE AND OTHER MATTERS

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

## PURPOSE OF THIS REPORT

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



Certified Public Accountants  
June 26, 2020

**Report on Compliance for Each Major Federal Program and  
Report on Internal Control Over Compliance  
Required by the Uniform Guidance**

**Independent Auditor's Report**

**To the Board of Directors  
Community Roots Housing  
Seattle, Washington**

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM**

We have audited Capitol Hill Housing Improvement Program's (CRH's) compliance with types of compliance requirements described in the U.S. Office of Management and Budget's Compliance Supplement that could have a direct and material effect on each of CRH's major federal programs for the year ended December 31, 2019. CRH's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

CRH's financial statements include the operations of Elizabeth James Senior Housing, a blended component unit of CRH, that in total received \$1,914,454 in federal awards. This project is subject to U.S. Department of Housing and Urban Development (HUD) reporting requirements. Elizabeth James Senior Housing was audited as a legally separate entity as permitted by 2 CFR 200.514(a) and HUD. Accordingly, the federal awards of \$1,914,454 are excluded from the accompanying schedule of expenditures of federal awards.

**Management's Responsibility**

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

**Auditor's Responsibility**

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

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



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## Opinion on Each Major Federal Program

In our opinion, CRH complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

## REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

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



Certified Public Accountants  
June 26, 2020

## COMMUNITY ROOTS HOUSING

### Schedule of Findings and Questioned Costs For the Year Ended December 31, 2019

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#### Section I - Summary of Auditor's Results

##### Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

- Material weaknesses identified?

☐ Yes

☒ No

- Significant deficiencies identified?

☐ Yes

☒ None reported.

Noncompliance material to financial statements noted?

☐ Yes

☒ No

##### Federal Awards

Internal control over major programs:

- Material weaknesses identified?

☐ Yes

☒ No

- Significant deficiencies identified?

☐ Yes

☒ None reported.

Type of auditor's report issued on compliance  
for major programs:

Unmodified

Any audit findings disclosed that are required to  
be reported in accordance with 2 CFR 200.516(a)?

☐ Yes

☒ No

##### Identification of Major Programs

CFDA Numbers

Name of Federal Program or Cluster

14.218

Community Development Block  
Grants/Entitlement Grants

Dollar threshold used to distinguish between  
Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

☒ Yes

☐ No

## **COMMUNITY ROOTS HOUSING**

### **Schedule of Findings and Questioned Costs (Continued) For the Year Ended December 31, 2019**

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#### **Section II - Financial Statement Findings**

No matters were reported.

#### **Section III - Findings and Questioned Costs for Federal Awards**

No matters were reported.