



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

September 23, 2021

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 of the Community Roots Housing for the fiscal years ended December 31, 2020 and 2019. 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 and, accordingly, we do not express an opinion on those financial statements.

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

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COMMUNITY ROOTS
HOUSING

Financial Statements and Single Audit Reports

For the Years Ended December 31, 2020 and 2019

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Independent Auditor's Report

To the Board of Directors
Community Roots Housing
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, 2020 and 2019, 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, 2020 and 2019, 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 May 27, 2021 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
May 27, 2021

COMMUNITY ROOTS HOUSING

Management's Discussion and Analysis For the Year Ended December 31, 2020

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, 2020.

Financial Highlights

- Assets exceeding liabilities (net position) at the close of 2020 totaled \$43,640,751.
- Unrestricted cash and cash equivalents on December 31, 2020 totaled \$5,443,877.
- CRH properties continue to operate with acceptable vacancy rates across the portfolio (blended and discrete component units) averaging 5.7 percent in 2020.
- During 2020, CRH completed construction of the Capitol Hill Transit Oriented Development (Station House) project and started leasing up the units. The lease up completed in 2020.
- 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. In 2020, predevelopment was largely completed with closing slated for the second quarter of 2021.
- 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 was completed in 2020. All 3 projects were leased up and the project is expected to convert to permanent financing by mid-2021.
- 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 Pride Place. In 2020, this project received a funding grant from the Gates Foundation and Microsoft through the Rise Together Capital campaign for construction of the commercial space. This project is expected to break ground in the third quarter of 2021.
- 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. In 2020, this project continued moving through predevelopment and is expected to break ground in late 2021.
- In 2020, CRH acquired the land for the South Annex project in the Pike Pine corridor in partnership with YouthCare to develop 87 units of affordable housing, including 35 units for homeless youth. This project is expected to close in 2022.
- The 410 Apartment property was sold in 2020.
- In early 2021, the CHDA Lake City LLLP property was sold to Chief Seattle Club.

COMMUNITY ROOTS HOUSING

Management's Discussion and Analysis For the Year Ended December 31, 2020

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.

The financial statements include the activities of CRH and 30 related entities that are required to be combined with CRH. These entities are four nonprofits, Elizabeth James Senior Housing, Central City Affordable Housing, CH Development Association, and Twelfth Avenue Arts 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 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 24th Manager LLC, White Center, CRH Heartwood LLC, South Annex, Pantages Apartments 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, Pantages Apartments 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. 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. 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 24th Manager LLC, which is the general partner of Union and 24th 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 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, 2020

Overview of the CRH Blended Entity Financial Position and Operations

	December 31,	2020	2019	2018
Assets:				
Current assets	\$	16,253,059	\$ 11,998,010	\$ 8,212,337
Noncurrent assets-				
Capital assets, net		87,059,010	53,752,964	57,512,468
Other		23,603,718	38,554,466	23,152,336
Total Assets		\$ 126,915,787	\$ 104,305,440	\$ 88,877,141
Liabilities:				
Current liabilities	\$	15,349,456	\$ 6,099,726	\$ 4,399,249
Noncurrent liabilities		67,925,580	59,030,734	64,169,866
Total Liabilities		\$ 83,275,036	\$ 65,130,460	\$ 68,569,115
Net Position:				
Invested in capital assets, net of related debt	\$	10,646,202	\$ (4,062,676)	\$ (3,583,244)
Restricted		6,962,134	6,139,343	6,941,715
Unrestricted		26,032,415	37,098,313	16,949,555
Total Net Position		\$ 43,640,751	\$ 39,174,980	\$ 20,308,026

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 in 2020 by \$4,465,771 and increased in 2019 by \$18,866,954. While operations were impacted in 2020 due to the COVID-19 pandemic, an increase of \$2,645,392 in contributions and grants from the community contributed to the increase in net worth. 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 12th 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 2019. The second put agreement was exercised in 2020, and along with related entity and lease restructuring, resulting in a gain of \$1,832,505 for 2020.

COMMUNITY ROOTS HOUSING

Management's Discussion and Analysis For the Year Ended December 31, 2020

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,	2020	2019	2018
Operating revenues-				
Tenant revenues	\$	12,175,296	\$ 12,174,133	\$ 12,469,469
Fees for services		1,052,333	1,149,470	1,076,045
Project development fees		2,969,052	4,218,378	2,095,153
Other		442,552	75,535	42,667
Nonoperating revenues-				
Contributions and grants		6,732,114	3,857,827	1,208,031
Gain on New Markets Tax Credit transaction		1,832,505	1,774,424	
Interest income		382,228	455,224	332,231
Gain on sale of assets		171,021	12,886,239	2,975
Total Revenues		25,757,101	36,591,230	17,226,571
Operating expenses-				
Salaries, benefits and payroll taxes		7,439,919	6,868,545	6,606,504
Operating and maintenance		2,018,871	2,305,419	1,706,902
Other operating expenses		4,004,227	4,978,236	4,611,863
Depreciation and amortization		3,079,355	2,348,886	2,461,188
Nonoperating expenses-				
Grant to component unit		1,988,516	44,313	92,181
Interest expense		1,328,279	1,178,877	1,232,238
Total Expenses		19,859,167	17,724,276	16,710,876
Change in component units		(1,432,163)		(858,097)
Change in Net Position	\$	4,465,771	\$ 18,866,954	\$ (342,402)

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 2020 due primarily to COVID-19 impact, which resulted in an eviction moratorium and limited rental rate increases. CRH tenant revenues in 2020 were supplemented by assist from the Residential Assistance Programs grant revenue in the amount of approximately \$1,390,000. Tenant revenues were flat in 2019 due to the mid-year disposition of the 3 Bonanza properties. Tenant revenues increased 12 percent in 2018. We are limited in how much we can increase tenant revenues as our rents are regulated. Vacancy loss for 2020 was 5.3 percent, for 2019 it was 5.3 percent, and for 2018 it was 3.2 percent. CRH continues to work to turn and lease units faster.

COMMUNITY ROOTS HOUSING

Management's Discussion and Analysis For the Year Ended December 31, 2020

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

CRH earns development fees for its management role in the development of new properties. During 2020 CRH earned development fees of \$2,969,052 primarily for the development of Bonanza and Station House. 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 \$2,095,153 primarily for the development of Union and 24th residential and commercial development and Station House development.

Salaries, benefits, and payroll tax expense, increased by 8.3 percent in 2020, increased by 4 percent in 2019 and increased by 10 percent in 2018. Salary and payroll taxes increased from additional hiring, annual pay increases, base pay market adjustments, the addition of properties being classified as blended and providing stipend adjustments for positions with greater exposure to COVID-19. Health care costs increased by 3.2 percent in 2020 and 2.9 percent in 2019.

Operating and maintenance expenses decreased 12 percent in 2020, largely from the impact of COVID - resulting in less turnover with the eviction moratorium, which effects cleaning, repainting, and updating costs. 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.

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 non-amortizing 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 increased in 2020 by 12.7 percent, driven by properties in predevelopment. 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.

CRH recognized a gain of \$171,021 for the sale of 410 Apartments in 2020 and a gain on sale of the Bonanza properties of \$12,886,239 in 2019. New Markets Tax Credit transactions provided a gain of \$1,832,505 in 2020 and \$1,774,424 in 2019.

In 2020, CRH received \$6,732,114 in contributions and grants representing 28 percent of total revenue, excluding gains. This included \$2,032,007 from Community Roots Housing Foundation, \$1,709,897 from the City of Seattle and \$1,064,717 from the Rise Together capital campaign.

In 2019 CRH received \$3,857,827 in contributions and grants representing 18 percent of total revenue, excluding gains. 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, 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 percent of total revenue, excluding gains. 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 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.

COMMUNITY ROOTS HOUSING

Management's Discussion and Analysis For the Year Ended December 31, 2020

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 \$1,453,689. In addition to the operating expenditures, CRH spent an additional \$221,817 on repair and maintenance funded from the 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, 2020 and 2019

	2020		2019	
	CRH	Discrete Component Units	CRH	Discrete Component Units
Current Assets:				
Cash and cash equivalents	\$ 5,443,877	\$ 3,572,222	\$ 3,866,419	\$ 2,182,328
Accounts receivable, net	10,263,233	299,698	7,704,357	898,400
Current portion of pledges receivable, net		1,434,480		354,768
Prepaid expenses and other current assets	545,949	230,549	398,071	67,175
Current portion of notes and interest receivable			29,163	
Total Current Assets	16,253,059	5,536,949	11,998,010	3,502,671
Restricted cash and cash equivalents	6,322,814	6,372,888	6,027,162	6,800,953
Net pledges receivable, less current portion		1,500		
Deferred rent receivable	312,389		682,767	65,000
Notes and interest receivable	16,437,189		30,753,836	
Land, buildings and equipment, net	87,059,010	162,087,071	53,752,964	177,833,034
Investment in limited partnerships and LLCs	531,326		1,090,701	
Capitalized costs, net		299,822		258,656
Total Assets	\$ 126,915,787	\$ 174,298,230	\$ 104,305,440	\$ 188,460,314

See accompanying notes.

COMMUNITY ROOTS HOUSING

Balance Sheets - Liabilities and Net Position December 31, 2020 and 2019

	2020		2019	
	CRH	Discrete Component Units	CRH	Discrete Component Units
Current Liabilities:				
Accounts payable and accrued liabilities	\$ 1,592,881	\$ 1,268,158	\$ 2,181,781	\$ 1,517,864
Construction payables		6,319,795		12,293,278
Deferred income	163,089	96,989	114,909	37,299
Current portion of accrued interest payable	362,947	82,143	101,397	90,418
Current portion of notes payable	13,230,539	40,440,550	3,701,639	506,246
Total Current Liabilities	15,349,456	48,207,635	6,099,726	14,445,105
Security deposits	524,075	249,078	527,344	249,461
Long-term deferred income			412,134	
Notes payable, net of current portion	63,182,269	104,479,268	54,114,001	151,351,512
Accrued interest payable	4,219,236	4,659,105	3,977,255	4,220,810
Total Liabilities	83,275,036	157,595,086	65,130,460	170,266,888
Net Position:				
Restricted for building improvements	3,662,744	3,041,078	3,121,909	2,202,012
Restricted for other purposes	3,299,390	5,285,314	3,017,434	5,250,662
Total restricted	6,962,134	8,326,392	6,139,343	7,452,674
Invested in capital assets, net of related debt	10,646,202	10,847,458	(4,062,676)	13,681,998
Unrestricted	26,032,415	(2,470,706)	37,098,313	(2,941,246)
Total Net Position	43,640,751	16,703,144	39,174,980	18,193,426
Total Liabilities and Net Position	\$ 126,915,787	\$ 174,298,230	\$ 104,305,440	\$ 188,460,314

See accompanying notes.

COMMUNITY ROOTS HOUSING

Statements of Revenues, Expenses and Changes in Net Position For the Years Ended December 31, 2020 and 2019

	2020		2019	
	CRH	Discrete Component Units	CRH	Discrete Component Units
Operating Revenues:				
Gross rent potential	\$ 12,635,296	\$ 7,538,176	\$ 12,619,300	\$ 6,604,165
Vacancy loss	(668,375)	(476,139)	(664,092)	(252,931)
Laundry, parking and other tenant income	208,375	210,333	218,925	219,535
Fees for services	1,052,333		1,149,470	
Project development and other fees	2,969,052		4,218,378	
Other operating revenue	442,552	(11,630)	75,535	13,991
Total Operating Revenues	16,639,233	7,260,740	17,617,516	6,584,760
Operating Expenses:				
Salaries, benefits and payroll taxes	7,439,919	970,113	6,868,545	731,331
Utilities	1,555,005	562,093	1,371,890	498,826
Professional fees	616,250	290,186	995,120	274,706
Administrative	608,163	1,013,540	993,085	1,104,199
Master lease			595,000	
Taxes and insurance	770,145	460,168	681,668	296,411
Operating and maintenance	2,018,871	981,536	2,305,419	994,132
Bad debt expense	189,616	71,107	105,923	65,244
Grants to CRH and affiliates		4,476,669		3,441,859
Other	265,048	307,865	235,550	273,516
Depreciation and amortization	3,079,355	4,618,405	2,348,886	3,886,081
Total Operating Expenses	16,542,372	13,751,682	16,501,086	11,566,305
Operating Income (Loss)	96,861	(6,490,942)	1,116,430	(4,981,545)
Nonoperating Revenues (Expenses):				
Contributions and grants	6,732,114	6,078,532	3,857,827	3,760,106
Grant to component unit	(1,988,516)		(44,313)	
In-kind revenue		540,113		573,374
Gain on New Markets Tax Credit transaction	1,832,505		1,774,424	
Interest income	382,228	8,068	455,224	16,286
Gain on disposition of assets	171,021		12,886,239	
In-kind expense		(540,113)		(573,374)
Interest expense	(1,328,279)	(2,344,442)	(1,178,877)	(2,160,978)
Total Nonoperating Revenues (Expenses)	5,801,073	3,742,158	17,750,524	1,615,414
Change in Net Position Before Capital Contributions and Other Changes	5,897,934	(2,748,784)	18,866,954	(3,366,131)
Capital Contributions and Other Changes:				
Change in component units	(1,432,163)	1,374,433		
Syndication costs		(88,520)		(56,697)
Capital distributions		(500,000)		
Capital contributions		472,589		11,046,006
Total Capital Contributions and Other Changes	(1,432,163)	1,258,502		10,989,309
Change in Net Position	4,465,771	(1,490,282)	18,866,954	7,623,178
Beginning of year	39,174,980	18,193,426	20,308,026	10,570,248
End of Year	\$ 43,640,751	\$ 16,703,144	\$ 39,174,980	\$ 18,193,426

See accompanying notes.

COMMUNITY ROOTS HOUSING

Statements of Cash Flows For the Years Ended December 31, 2020 and 2019

	2020		2019	
	CRH	Discrete Component Units	CRH	Discrete Component Units
Cash Flows From Operating Activities:				
Receipts from tenants	\$ 13,423,134	\$ 7,172,074	\$ 10,413,202	\$ 6,402,035
Receipts for developer fees	767,339		3,434,528	
Payments to employees and for payroll taxes and benefits	(7,419,060)	(970,113)	(6,913,715)	(731,331)
Payments to suppliers	(6,680,519)	(8,484,581)	(6,713,907)	(6,948,949)
Net Cash Provided (Used) by Operating Activities	90,894	(2,282,620)	220,108	(1,278,245)
Cash Flows From Noncapital Financing Activities:				
Receipts from contributions and grants	6,728,194	4,997,320	4,006,745	3,901,349
Payment of grants	(1,988,516)		(44,313)	
Net Cash Provided by Noncapital Financing Activities	4,739,678	4,997,320	3,962,432	3,901,349
Cash Flows From Capital and Related Financing Activities:				
Acquisition of land, building and equipment	(12,171,276)	(19,046,253)	(4,007,388)	(32,904,403)
Proceeds from sale of land, building and equipment			2,199,570	
Proceeds from notes payable	14,143,602	20,067,025	515,000	34,359,780
Principal payments on notes payable	(4,250,912)	(448,684)	(2,076,604)	(9,946,167)
Interest paid on notes payable	(1,347,133)	(1,328,287)	(1,199,420)	(1,267,285)
Payment of financing costs		(791,880)		(129,083)
Payment of syndication costs		(88,520)		(56,697)
Capital contributions		472,589		11,046,006
Net Cash (Used) Provided by Capital and Related Financing Activities	(3,625,719)	(1,164,010)	(4,568,842)	1,102,151
Cash Flows From Investing Activities:				
Net change in restricted cash and cash equivalents	180,835	(48,422)	1,102,506	(3,185,275)
Cash transfer due to change in component units	120,442	(120,442)		
Investment in limited partnership			(500,000)	
Advances of notes receivable	(276,025)			
Interest receipts	347,353	8,068	301,831	16,286
Net Cash Provided (Used) by Investing Activities	372,605	(160,796)	904,337	(3,168,989)
Net Change in Cash and Cash Equivalents	1,577,458	1,389,894	518,035	556,266
Cash and cash equivalents, beginning of year	3,866,419	2,182,328	3,348,384	1,626,062
Cash and Cash Equivalents, End of Year	\$ 5,443,877	\$ 3,572,222	\$ 3,866,419	\$ 2,182,328

See accompanying notes.

COMMUNITY ROOTS HOUSING

Statements of Cash Flows (Continued) For the Years Ended December 31, 2020 and 2019

	2020		2019	
	CRH	Discrete Component Units	CRH	Discrete Component Units
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ 96,861	\$ (6,490,942)	\$ 1,116,430	\$ (4,981,545)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities-				
Depreciation and amortization	3,079,355	4,618,405	2,348,886	3,886,081
Partnership income	1,645		643	
Changes in assets and liabilities:				
Receivables	(2,650,563)	(167,381)	(3,392,712)	(170,974)
Prepaid expenses and other current assets	292,123	(232,996)	(154,039)	74,662
Accounts payable and accrued liabilities	(747,923)	(159,528)	357,747	(139,962)
Security deposits and deferred income	19,396	149,822	(56,847)	53,493
Net Cash Provided (Used) by Operating Activities	\$ 90,894	\$ (2,282,620)	\$ 220,108	\$ (1,278,245)
Schedule of Noncash Financing and Investing Activities:				
Noncash balance sheet net adjustments relating to change in component units, increase (decrease) to balance-				
Accounts receivables, net	\$ 766,083	\$ (766,083)	\$ -	\$ -
Prepaid expenses and other current assets	\$ 69,623	\$ (69,623)	\$ -	\$ -
Restricted cash and cash equivalents	\$ 476,487	\$ (476,487)	\$ -	\$ -
Land, buildings and equipment, net	\$ 23,740,428	\$ (23,740,428)	\$ -	\$ -
Investment in limited partnerships and LLCs	\$ (57,730)	\$ -	\$ -	\$ -
Accounts payable and accrued liabilities	\$ 90,178	\$ (90,178)	\$ -	\$ -
Security deposits	\$ 25,515	\$ (25,515)	\$ -	\$ -
Notes and interest receivable	\$ (85,958)	\$ -	\$ -	\$ -
Accrued interest	\$ 489,297	\$ (506,862)	\$ -	\$ -
Notes payable	\$ 25,856,548	\$ (25,924,941)	\$ -	\$ -
Noncash forgiveness of New Markets Tax Credits inter-entity activity-				
Notes receivable	\$ 14,570,752	\$ -	\$ -	\$ -
Notes payable	\$ 17,764,714	\$ -	\$ -	\$ -
Long-term deferred income	\$ 412,134	\$ -	\$ -	\$ -
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, 2020 and 2019

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, Twelfth Avenue Arts Association, and several wholly-owned or majority-owned limited partnerships and LLCs. CRH and its blended component units include 34 apartment projects and 899 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 14 apartment projects and 684 units as well as two projects 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.

12th Avenue Arts Associates LLC (12th Ave Arts Associates) was formed in 2012 to construct and own the commercial and parking components of the 12th Avenue Arts project (Note 2) with construction being completed and the project placed into operation during 2014. 12th 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. In 2019, the Association and 12th Ave Arts Associates were reported as discrete component units. Effective in 2020, CRH is the sole member of the Association and so starting in 2020 the Association and 12th Ave Arts Associates are reported as blended component units.

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2020 and 2019

Note 1 - Continued

During 2020, all remaining ownership interests in Pantages Apartments LLC (Pantages) were transferred to CRH. As such, Pantages changed from being reported as a discrete component unit in fiscal year 2019 to a blended component unit in fiscal year 2020.

During 2019, CRH created Bonanza 1 LLLP to own and rehabilitate three apartment projects. The three apartment projects are the El Nor apartments, 18th 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.

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, 2020 and 2019, the carrying amount of CRH's demand deposits was \$8,022,226 and \$5,488,665, respectively, and was not materially different from the bank balances.

At December 31, 2020 and 2019, CRH had \$3,744,465 and \$4,404,916, 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.

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, 2020 and 2019, 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, 2020 and 2019, of \$1,284,564 and \$1,773,568, respectively, is included in cash and cash equivalents.

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2020 and 2019

Note 1 - Continued

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 2020 or 2019.

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.

Investment in Limited Partnerships and LLCs - CRH is a partner or member in several limited partnerships and limited liability companies. CRH records its investment in these partnerships and limited liability companies using the equity method of accounting as CRH usually 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.

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2020 and 2019

Note 1 - Continued

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 \$639,320 and \$112,181 at December 31, 2020 and 2019 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.

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.

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2020 and 2019

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:

	2020	2019
<u>Broadway & 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.	8,493,366	\$ 8,284,064
Note receivable, compounding interest at 1.0%, annual payments from available cash flow through maturity on August 1, 2069.	5,720,085	\$ 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 & 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. Effective 2020, Pantages is a blended component unit.		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
<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 Markets Tax Credits Loans</u>		
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. Notes were forgiven during 2020.		6,645,035

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2020 and 2019

Note 2 - Continued

	2020	2019
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. Notes were forgiven during 2020.		7,926,840
Total principal	15,725,087	30,099,171
Accrued interest on the above notes	712,102	683,828
Total principal and interest	16,437,189	30,782,999
Less current portion of notes and interest receivable		(29,163)
Noncurrent Portion	\$ 16,437,189	\$ 30,753,836

New Markets Tax Credit Loans - In December 2012, CRH entered into a New Markets Tax Credit (NMTC) transaction to partially finance the construction of the 12th 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 12th Avenue Arts Associates LLC. 12th Avenue Arts Associations LLC was a discrete component unit during 2019 and a blended component unit starting in 2020.

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 had 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 12th 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.

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2020 and 2019

Note 2 - Continued

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 12th Avenue Arts Associates LLC. This resulted in a net gain recognized during 2020 as summarized below:

Gain from acquisition of QEI	\$ 3,190,850
Forgiveness of notes receivable	(17,764,714)
Forgiveness of notes payable	17,764,714
Write-off of straight-line lease receivable from lease modification	(449,556)
Write-off of unamortized debt issuance costs	(908,789)
Gain on New Markets Tax Credit Transaction	<u>\$ 1,832,505</u>

Netted with the gain related to the NMTC transaction is a loss associated with the write-off of deferred rent receivable of \$449,556. This write-off is a result of the modification to the lease with the City of Seattle made as part of the NMTC transaction (Note 4).

Note 3 - Land, Buildings and Equipment

Land, buildings and equipment activity consisted of the following:

	January 1, 2020	Increases	Decreases	Change in Component Units	Net Transfers	December 31, 2020
Nondepreciable assets-						
Land	\$ 18,739,965	\$ 5,893,465	\$ (60,000)	\$ 1,925,690	\$ -	\$ 26,499,120
Pre-development costs	2,525,420	6,454,301			(924,918)	8,054,803
Depreciable assets-						
Buildings and facilities	73,761,354	357,585	(338,042)	27,692,649	924,918	102,398,464
Equipment and vehicles	3,230,927	72,857	(1,443)	689,043		3,991,384
Less accumulated depreciation	(44,504,702)	(3,047,557)	234,452	(6,566,954)		(53,884,761)
	<u>\$ 53,752,964</u>	<u>\$ 9,730,651</u>	<u>\$ (165,033)</u>	<u>\$ 23,740,428</u>	<u>\$ -</u>	<u>\$ 87,059,010</u>
	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>

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2020 and 2019

Note 3 - Continued

During 2020, the investor member units in Pantages Apartments LLC were transferred to CRH, changing the LLC to a blended component unit. Additionally, during 2020, Twelfth Avenue Arts Association and 12th Avenue Arts Associates LLC became blended component units. These transfers resulted in a net increase of \$23,740,428 to land, buildings and equipment.

During 2019, CRH sold the El Nor apartments, 18th 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.

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.

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 12th Avenue Arts project (Note 2). Twelfth Avenue Arts Development, LLC assigned the lease to 12th 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. In February 2020, the ground lease was amended to transfer the minimum lease payment requirement from Twelfth Avenue Arts Development, LLC, to 12th Avenue Arts Associations LLC for the remainder of the lease term. The amendment also changed the rental payments to the City to \$1 per month starting in March 2020. Additionally, as part of the amendment the City is granted a purchase option that allows the City to opt to purchase the garage condominium unit for \$1,000.

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:

For the Year Ending December 31,

2021	\$ 1,042,082
2022	941,916
2023	1,015,821
2024	854,223
2025	519,983
Thereafter	<u>4,794,273</u>
	<u><u>\$ 9,168,298</u></u>

During the year ended December 31, 2020, a lease to the City of Seattle was amended to adjust monthly rent from \$16,667, to monthly rent of \$5,000 beginning in March of 2020. The lease modification resulted in a write-off of deferred rent receivable totaling \$449,556. The lease was modified as a result of the NMTC transactions and the loss on the write-off of deferred rent is netted against the NMTC transaction gain (Note 2).

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2020 and 2019

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>2020</u>	<u>2019</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.	\$ 19,804,289	\$ 16,842,373
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.	27,219,021	23,073,127
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 and recoverable grants, 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. Recoverable grants may be forgiven in their entirety if conditions are met through the extended maturity date.	16,358,669	8,917,073
Equity equivalent investment loan, interest only at 2.5% payable quarterly, to be repaid in full October 2021.	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
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	690,000
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

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2020 and 2019

Note 5 - Continued

	2020	2019
Predevelopment loan, bearing interest at 5.5%. Principal and interest due in full upon maturity which is the earlier of August 2021 or the date of closing on construction financing.	2,000,000	
Bridge Loan for acquisition of Lake City land, bearing interest at 6.25%. Interest only payments due monthly. Principal and interest due March 2021.	1,971,900	1,971,900
Predevelopment line of credit with one lender; maximum of \$2,000,000 available, interest at 5.75% with principal to be paid in full upon maturity in July 2021.	1,780,464	187,067
Northern Investors Company Insurance financing loan, bearing 7.05% payable annually, to be repaid in full January 1, 2021.	29,953	
Revolving line of credit with a commercial bank with a maximum of \$500,000 available and a variable interest rate calculated annually, currently 3.25%, due December 2021.	500,000	
Total principal	76,754,296	58,081,540
Less current portion of notes payable	(13,230,539)	(3,701,639)
Less unamortized financing costs	(341,488)	(265,900)
Noncurrent Portion	\$ 63,182,269	\$ 54,114,001

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

For the Year Ending December 31,	Principal	Interest
2021	\$ 13,230,539	\$ 1,298,060
2022	1,996,349	1,221,611
2023	1,641,131	1,157,337
2024	1,305,981	1,088,379
2025	2,631,625	946,403
2026 - 2030	18,118,168	3,411,455
2031 - 2035	13,956,409	1,422,179
2036 - 2040	10,198,877	817,329
2041 - 2045	8,110,065	438,533
2046 - 2050	1,659,246	25,342
2051 - 2055	3,905,906	546
	\$ 76,754,296	\$ 11,827,174

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2020 and 2019

Note 5 - Continued

Accrued interest payable on the above notes payable totaled \$4,582,183 and \$4,078,652 at December 31, 2020 and 2019, respectively and is presented separately from the above total for notes payable on the balance sheets. Interest expense on the above notes payable aggregated \$1,328,279 and \$1,178,877 for fiscal years 2020 and 2019, 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 2020:

	Notes Payable	Accrued Interest Payable
Beginning balance, December 31, 2019	\$ 57,815,640	\$ 4,078,652
Increases-		
CRH	14,143,602	
Accrual, net of forgiven interest		1,282,395
Transfers from changes in reporting unit-		
Pantages	5,212,115	474,397
Twelfth Avenue Arts Association	20,644,433	14,900
Decreases-		
Payments	(4,517,081)	(1,268,161)
Forgiveness of New Markets Tax Credits loans, net of unamortized loan fees	(16,855,925)	
Payment of financing costs	(75,860)	
Amortization of financing costs	45,884	
Ending Balance, December 31, 2020	<u>\$ 76,412,808</u>	<u>\$ 4,582,183</u>

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2020 and 2019

Note 5 - Continued

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

	Notes Payable	Accrued Interest Payable
Beginning balance, December 31, 2018	\$ 61,095,712	\$ 4,366,754
Increases-		
CRH	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	
Ending Balance, December 31, 2019	\$ 57,815,640	\$ 4,078,652

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. 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 24th Manager LLC, which have a 0.01% general partner interest in Bonanza 1 LLLP and Union and 24th Associates LLC, respectively. CRH is also the sole member of CHH Square Park LLC which is a 9.65% 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 CRH Yesler LLC, which is co-general partner and holds a 0.0049% ownership interest in Big Village LLLP. Big Village LLLP is the tax credit ownership entity of Yesler Family Housing a 158 unit affordable housing project in Seattle, Washington. 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, or owns a significant ownership interest, and possesses significant influence in the operating and financial policies of the investees.

During 2020 and 2019, CRH earned property management fees of \$668,438 and \$678,070 respectively, and limited partnership and LLC management fees of \$172,095 and \$203,713 respectively, from these entities. Additionally, CRH earned development and other fees totaling \$2,969,052 and \$4,218,378 in 2020 and 2019, respectively, from these entities.

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2020 and 2019

Note 6 - Continued

The following is a summary of selected financial information as of and for the year ended December 31, 2020, from the limited partnerships and LLCs described above and also represents condensed financial information for the aggregated discretely presented component units:

	December 31, 2020		
	Assets	Liabilities	Equity
Affordable Apartments Associates LLC	\$ 6,845,176	\$ 5,988,280	\$ 856,896
Broadway & Pine Apartments LLC	6,452,512	5,249,873	1,202,639
Capitol Hill Housing Foundation	2,144,615	130,007	2,014,608
Holiday Apartments Limited Partnership	5,540,458	5,524,345	16,113
Jefferson & 12th LLC	9,613,169	8,786,205	826,964
Silvian Apartments LLC	3,718,417	2,945,528	772,889
SOPI Village LLC	6,866,337	5,896,341	969,996
Woodland Park Avenue LLC	3,241,574	4,106,291	(864,717)
Twelfth Avenue Arts Housing LLLP	18,477,437	16,763,818	1,713,619
Union and 24th Associates LLC	29,816,722	22,146,279	7,670,443
CH TOD LLC	33,244,174	32,619,535	624,639
Imperial Jazz LLLP	3,946,863	3,814,661	132,202
Bonanza 1 LLLP	44,390,776	43,623,923	766,853
Discretely Presented Component Units	<u>\$ 174,298,230</u>	<u>\$ 157,595,086</u>	<u>\$ 16,703,144</u>
Squire Park Holdings LLC	\$ 10,788,062	\$ 7,878,741	\$ 2,909,321
CRH Yesler LLC	\$ 2,731,798	\$ 2,731,798	\$ -

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2020 and 2019

Note 6 - Continued

	Year Ended December 31, 2020	
	Total Revenues	Net Income (Loss)
Affordable Apartment Associates LLC	\$ 471,023	\$ 3,452
Broadway & Pine Apartments LLC	504,291	(305,664)
Capitol Hill Housing Foundation	6,567,643	1,331,702
Holiday Apartments Limited Partnership	346,770	(115,898)
Jefferson & 12th LLC	556,001	(275,266)
Pantages Apartments LLC		
Silvian Apartments LLC	491,354	44,314
SOPI Village LLC	297,983	(343,786)
Woodland Park Avenue LLC	220,660	(181,477)
Twelfth Avenue Arts Association and Subsidiary		
Twelfth Avenue Arts Housing LLLP	1,116,511	(508,280)
Union and 24th Associates LLC	1,292,295	(763,458)
CH TOD LLC	662,335	(1,143,592)
Imperial Jazz LLLP		
Bonanza 1 LLLP	1,360,587	(490,831)
Discretely Presented Component Units	\$ 13,887,453	\$ (2,748,784)
Squire Park Holdings LLC	\$ 1,169,665	\$ 75,587
CRH Yesler LLC	\$ -	\$ -

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2020 and 2019

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 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
SOPI 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
Discretely Presented Component Units	<u>\$ 188,460,314</u>	<u>\$ 170,266,888</u>	<u>\$ 18,193,426</u>
Squire Park Holdings LLC	\$ 10,807,948	\$ 8,014,214	\$ 2,793,734
CRH Yesler LLC	\$ 599,305	\$ 599,305	\$ -

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2020 and 2019

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
SOPH 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
Discretely Presented Component Units	\$ 10,934,526	\$ (3,366,131)
Squire Park Holdings LLC	\$ 1,181,911	\$ 96,689
CRH Yesler LLC	\$ -	\$ -

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 \$9,121,620 and \$6,918,484 at December 31, 2020 and 2019, respectively. The accounts receivable balance at December 31, 2020 and 2019 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. At December 31, 2020 and 2019, CRH had \$48,303,030 and \$51,889,530 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, 2020 and 2019

Note 7 - Blended Component Units

The following condensed combining information is presented as of and for the years ended December 31, 2020 and 2019 for blended components as summarized in a single column titled CRH in the basic financial statements. Certain blended component units were reclassified during year ended December 31, 2020, causing a change the net position at the beginning of 2020 from December 31, 2020 by unit type, but not in total net position.

Condensed combining information for the 2020 balance sheet is presented below:

	CRH	Housing Blended Component Units	Non-Housing Blended Component Units	Eliminations in Blending	Total
Assets:					
Current assets	\$ 15,744,431	\$ 1,874,786	\$ 790,378	\$ (2,156,536)	\$ 16,253,059
Noncurrent assets-					
Capital assets, net	33,328,070	33,486,080	20,244,860		87,059,010
Other	23,643,148	3,276,120	535,320	(3,850,870)	23,603,718
Total Assets	\$ 72,715,649	\$ 38,636,986	\$ 21,570,558	\$ (6,007,406)	\$ 126,915,787
Liabilities:					
Current liabilities	\$ 9,362,733	\$ 8,107,511	\$ 229,314	\$ (2,350,102)	\$ 15,349,456
Noncurrent liabilities	34,058,068	33,198,297	4,326,519	(3,657,304)	67,925,580
Total Liabilities	\$ 43,420,801	\$ 41,305,808	\$ 4,555,833	\$ (6,007,406)	\$ 83,275,036
Net Position:					
Invested in capital assets, net of related debt	\$ (4,835,572)	\$ (392,482)	\$ 15,874,256	\$ -	\$ 10,646,202
Restricted	2,807,564	3,860,265	294,305		6,962,134
Unrestricted	31,322,856	(6,136,605)	846,164		26,032,415
Total Net Position	\$ 29,294,848	\$ (2,668,822)	\$ 17,014,725	\$ -	\$ 43,640,751

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2020 and 2019

Note 7 - Continued

Condensed combining information for the 2020 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
Operating Revenues:					
Tenant revenues	\$ 4,905,003	\$ 6,723,700	\$ 940,099	\$ (393,506)	\$ 12,175,296
Fees for services	1,817,066			(764,733)	1,052,333
Project development fees	2,969,052				2,969,052
Other	438,532	2,461	1,559		442,552
Total Operating Revenues	10,129,653	6,726,161	941,658	(1,158,239)	16,639,233
Operating expenses	9,525,386	4,641,724	454,146	(1,158,239)	13,463,017
Depreciation and amortization	903,735	1,639,191	536,429		3,079,355
Total Operating Expenses	10,429,121	6,280,915	990,575	(1,158,239)	16,542,372
Operating Income	(299,468)	445,246	(48,917)		96,861
Nonoperating revenues (expenses)-					
Contributions and grants	4,332,509	1,399,443	1,000,162		6,732,114
Grant to component unit	(1,539,621)		(448,895)		(1,988,516)
Gain (loss) on New Markets					
Tax Credit transaction	(14,573,864)		16,406,369		1,832,505
Interest income	380,109	2,116	3		382,228
Gain on disposition of assets	171,050		(29)		171,021
Interest expense	(370,037)	(819,339)	(138,903)		(1,328,279)
Change in Net Position Before Capital Contributions and Other Changes	(11,899,322)	1,027,466	16,769,790		5,897,934
Capital Contributions and Other Changes:					
Change in component units	(57,730)	686,904	(2,061,337)		(1,432,163)
Total Capital Contributions and Other Changes	(57,730)	686,904	(2,061,337)		(1,432,163)
Change in Net Position	(11,957,052)	1,714,370	14,708,453		4,465,771
Net Position:					
Beginning of year	41,251,900	(4,383,192)	2,306,272		39,174,980
End of Year	\$ 29,294,848	\$ (2,668,822)	\$ 17,014,725	\$ -	\$ 43,640,751

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2020 and 2019

Note 7 - Continued

Condensed combining information for the 2020 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	\$ (3,459,341)	\$ 2,991,519	\$ 558,716	\$ -	\$ 90,894
Net cash provided by noncapital financing activities	2,788,968	1,399,443	551,267		4,739,678
Net cash (used) provided by capital and related financing activities	954,206	(3,665,473)	(914,452)		(3,625,719)
Net cash provided (used) by investing activities	<u>467,678</u>	<u>(229,262)</u>	<u>134,189</u>		<u>372,605</u>
Net change in cash and cash equivalents	751,511	496,227	329,720		1,577,458
Cash and cash equivalents, beginning of year	<u>2,753,151</u>	<u>899,809</u>	<u>213,459</u>		<u>3,866,419</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,504,662</u>	<u>\$ 1,396,036</u>	<u>\$ 543,179</u>	<u>\$ -</u>	<u>\$ 5,443,877</u>

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2020 and 2019

Note 7 - Continued

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

	CRH	Housing Blended Component Units	Non-Housing Blended Component Units	Eliminations in Blending	Total
Assets:					
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	18,854,002	17,097,968	9,502,432	(6,899,936)	38,554,466
Total Assets	\$ 70,339,549	\$ 35,300,817	\$ 10,417,608	\$ (11,752,534)	\$ 104,305,440
Liabilities:					
Current liabilities	\$ 9,397,584	\$ 723,613	\$ 831,127	\$ (4,852,598)	\$ 6,099,726
Noncurrent liabilities	39,032,525	19,935,238	62,971		59,030,734
Total Liabilities	\$ 48,430,109	\$ 20,658,851	\$ 894,098	\$ (4,852,598)	\$ 65,130,460
Net Position:					
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	20,878,841	14,254,210	8,865,198	(6,899,936)	37,098,313
Total Net Position	\$ 21,909,440	\$ 14,641,966	\$ 9,523,510	\$ (6,899,936)	\$ 39,174,980

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2020 and 2019

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
Operating Revenues:					
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
Total Operating Revenues	13,146,991	5,420,372	1,070,329	(2,020,176)	17,617,516
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
Total Operating Expenses	12,679,294	4,787,552	1,054,416	(2,020,176)	16,501,086
Operating Income (Loss)	467,697	632,820	15,913		1,116,430
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)
Change in Net Position	17,306,503	10,983,075	(9,422,624)		18,866,954
Net Position:					
Beginning of year	4,602,937	3,658,891	18,946,134	(6,899,936)	20,308,026
End of Year	\$ 21,909,440	\$ 14,641,966	\$ 9,523,510	\$ (6,899,936)	\$ 39,174,980

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2020 and 2019

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 provided (used) by capital and related financing activities	17,746	(4,947,850)	361,262		(4,568,842)
Net cash provided (used) by investing activities	(56,892)	1,318,858	(357,629)		904,337
Net change in cash and cash equivalents	957,526	(486,755)	47,264		518,035
Cash and cash equivalents, beginning of year	1,972,409	1,212,865	163,110		3,348,384
Cash and Cash Equivalents, End of Year	\$ 2,929,935	\$ 726,110	\$ 210,374	\$ -	\$ 3,866,419

Note 8 - Employee Benefits

CRH contributes to a Simplified Employee Pension (SEP) plan, a defined contribution benefit plan, on behalf of all eligible employees. CRH's contribution is discretionary. Contributions for 2020 and 2019 were 2 percent of gross wages annually and were in the amounts of \$111,363 and \$101,910, respectively. As of December 31, 2020 and 2019, accrued pension costs, including employee deferrals, totaled \$139,933 and \$124,439, respectively. There were no Plan forfeitures for either years ended December 31, 2020 and 2019.

Note 9 - Acquisitions and Development

During 2020, CRH was engaged in the following acquisition and development projects:

Capitol Hill Transit Oriented Development (aka Station House) - Construction was completed in February 2020 and initial lease up was completed in December 2020.

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.

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2020 and 2019

Note 9 - Continued

Lake City Development - During early 2021, CRH sold this property.

Africatown Plaza Development - During 2020, CRH, in partnership with Africatown Community Land Trust (ACLT) applied for bond funding.

Bonanza - During 2020, CRH completed construction on two of the three portfolio properties that closed in 2020. With the third property being completed in 2019. Re-occupancy and lease up activities occurred in 2020 & 2021.

CHP-1 - In December 2020, CRH began the closing process for the refinancing of three portfolio properties scheduled to be renovated. The properties include Boylston Howell, Bremer, and John Carney. Renovation activities will commence during the first quarter of 2021.

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 applied for bond funding in 2020.

Jazz House Development - CRH, in partnership with Seattle Jazz ED, a nonprofit organization, continued project design activities for the 108-unit workforce housing project. Permit application was also submitted in 2020 with permit issuance anticipated in the fourth quarter of 2021.

Union and 14th - CRH is developing the site as 126-unit affordable work force housing project. Project design, financing structure, and the permitting process were all nearing completion in 2020. The project is projected to close and commence construction in 2021.

Yesler Family - CRH, in partnership with Seattle Chinatown International District Preservation Authority, began predevelopment of an approximately 156-unit affordable housing project known as Yesler Family on land to be leased from Seattle Housing Authority. Project received a bond application and selected the financing partners in 2020. Project financing is expected to close in May 2021.

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.

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2020 and 2019

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.

Note 12 - Subsequent Events

Subsequent to December 31, 2020, in January 2021 all remaining ownership interests in Silvian Apartments LLC (Silvian) were transferred to CHDA. As such, Silvian will change from being reported as a discrete component unit in fiscal year 2020 to a blended component unit beginning in fiscal year 2021.

SUPPLEMENTARY INFORMATION

COMMUNITY ROOTS HOUSING

Schedule of Departmental Operations For the Year Ended December 31, 2020

	Property Operations	Administration and Management	Total
Receipts:			
Rents	\$ 12,927,385	\$ -	\$ 12,927,385
Vacancy	(668,375)		(668,375)
Tenant fees	208,373		208,373
Development fees		2,969,052	2,969,052
Fees for services		1,052,333	1,052,333
Contributions and grants		6,732,114	6,732,114
Other income	325,389	117,163	442,552
Total Receipts	12,792,772	10,870,662	23,663,434
Expenditures:			
On-site management expense	2,031,710		2,031,710
Office salaries, benefits and payroll taxes		5,408,206	5,408,206
Utilities	1,550,742		1,550,742
Professional fees	543,914	4,265	548,179
Insurance	405,556	72,333	477,889
Property management fees	1,337,362		1,337,362
Repairs, maintenance and improvements	2,293,076	90,359	2,383,435
Debt service	2,077,133		2,077,133
Reserves	594,622		594,622
Other	504,968	1,174,759	1,679,727
Total Expenditures	11,339,083	6,749,922	18,089,005
Operating Income	1,453,689	4,120,740	5,574,429
Reconciliation to Statement of Income:			
Depreciation	(3,017,068)	(62,287)	(3,079,355)
Reserves additions	594,622		594,622
Interest income	17,478	364,750	382,228
Interest expense	(1,233,110)		(1,233,110)
Other income (expenses)	(329,171)		(329,171)
Fixed asset additions from operations	129,449		129,449
Expenses paid from reserves	(221,817)		(221,817)
Debt service payments	2,077,133		2,077,133
Frontline and bookkeeping charges	462,757	(462,757)	
Management fees	1,337,362	(1,337,362)	
Gain on New Market Tax Credit transaction		1,832,505	1,832,505
Gain on disposition of property		171,021	171,021
Net Income	\$ 1,271,324	\$ 4,626,610	\$ 5,897,934

See independent auditor's report.

COMMUNITY ROOTS HOUSING

**Schedule of Property Operations
For the Year Ended December 31, 2020**

	Berneva	Boylston/ Howell	Bremer	Brewster	Broadway	Burke Gilman Gardens	Byron/ Wetmore	Centennial	CHDA Lake City LLP
Receipts:									
Rents	\$ 118,640	\$ 329,975	\$ 480,675	\$ 331,511	\$ 69,600	\$ 208,723	\$ 144,948	\$ 358,440	\$ 118,568
Vacancy	(840)	(3,947)	(11,032)	(4,188)	(7,200)	(1,770)		(22,903)	
Tenant fees	1,023	19,370	6,115	6,532	217	3,362	1,749	10,245	
Other income	1,143	4,352	4,530	3,333	608	1,699	1,643	4,352	959
Total Receipts	119,966	349,750	480,288	337,188	63,225	212,014	148,340	350,134	119,527
Expenditures:									
On-site management expense	52,525	81,751	79,904	64,957	8,428	24,374	27,428	69,756	10,214
Utilities	19,928	52,077	51,135	53,903	6,182	45,490	33,505	46,849	12,500
Professional fees	6,822	10,099	12,749	10,525	6,701	7,303	8,982	9,706	8,154
Insurance	5,295	14,916	16,190	12,688	2,269	7,015	5,518	11,641	4,290
Property management fees	10,522	49,034	79,685	55,754	10,449	30,522	27,130	27,558	5,934
Repairs, maintenance and improvements	17,872	65,660	70,070	43,407	9,781	31,153	23,922	62,872	21,583
Debt service	10,546		86,403		8,100	23,017	5,100	112,851	
Reserves	3,438	10,000	24,621	26,400	6,000	7,500	7,000	13,000	
Other	2,643	9,602	15,121	9,341	1,591	10,585	5,877	11,050	23,832
Total Expenditures	129,591	293,139	435,878	276,975	59,501	186,959	144,462	365,283	86,507
Operating Income (Loss)	(9,625)	56,611	44,410	60,213	3,724	25,055	3,878	(15,149)	33,020
Reconciliation to Statement of Income:									
Depreciation and amortization	(24,627)	(76,615)	(56,717)	(91,267)	(9,767)	(75,063)	(35,647)	(55,515)	(2,222)
Reserves additions	3,438	10,000	24,621	26,400	6,000	7,500	7,000	13,000	
Interest income - restricted	62	693	1,076	2,290	417	977	133	810	
Interest and financial expenses	219		(50,732)	5,133	(4,108)	9,682	1,945	(60,313)	(8,020)
Other income (expense)				2,645					
Fixed asset additions from operations			5,771						
Expenses paid from reserves		(7,022)		(192,000)					
Debt service payments	10,546		86,403		8,100	23,017	5,100	112,851	
Frontline and bookkeeping charges	9,184	15,609	22,391	17,394	6,685	10,255	9,184	15,609	6,643
Management fees	10,522	49,034	79,685	55,754	10,449	30,522	27,130	27,558	5,934
Net Income (Loss)	\$ (281)	\$ 48,310	\$ 156,908	\$ (113,438)	\$ 21,500	\$ 31,945	\$ 18,723	\$ 38,851	\$ 35,355

See independent auditor's report.

COMMUNITY ROOTS HOUSING

**Schedule of Property Operations (Continued)
For the Year Ended December 31, 2020**

	Central City Affordable Housing	Devonshire	South Annex Youth Care	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
Receipts:															
Rents	\$ 301,560	\$ 617,751	\$ 50,881	\$ 660,416	\$ 358,199	\$ 336,798	\$ 743,334	\$ 355,257	\$ 323,521	\$ 403,203	\$ 449,112	\$ 256,626	\$ 138,192	\$ 294,628	\$ 358,591
Vacancy	(17,452)	(32,095)		(31,869)	(22,068)	(9,931)	(55,679)	(18,407)	(4,094)	(6,364)	(7,546)	(43,164)		(17,305)	(16,475)
Tenant fees	944	18,967	11,630	1,837	5,299	2,315	3,843	7,283	4,010	4,707	1,469	314		5,830	8,692
Other income	1,688	11,541	6,382	3,606	3,666	1,472	9,494	3,417	7,364	2,491	4,511	(1,000)	38	6,245	3,375
Total Receipts	286,740	616,164	68,893	633,990	345,096	330,654	700,992	347,550	330,801	404,037	447,546	212,776	138,230	289,398	354,183
Expenditures:															
On-site management expense	34,430	140,730		147,937	65,222	20,120	108,299	55,908	77,316	37,642	55,436	56,610	385	63,861	58,380
Utilities	38,420	90,819	1,021	65,889	55,610	27,845	55,936	56,916	49,647	63,172	28,063	31,750	605	32,120	48,156
Professional fees	9,209	16,497	5,500	56,559	21,346	12,443	21,192	9,513	13,027	17,698	7,463	17,605	5,215	14,483	16,136
Insurance	6,038	19,843	6,165	27,297	11,517	6,222	13,621	10,874	12,956	12,501	6,216	6,793	2,324	9,007	10,057
Property management fees	14,781	103,227		36,000	43,528	56,081	84,039	52,995	44,935	22,907	30,072	13,608	5,745	47,606	50,833
Repairs, maintenance and improvements	59,387	105,599	4,730	158,638	84,480	41,536	140,567	92,109	62,629	60,577	24,239	94,871	762	52,266	87,333
Debt service	64,930	9,080		121,832	82,227	65,996	108,919	36,000	118,020	108,711	15,994	15,994		35,700	21,920
Reserves	21,438	101,500		35,579	13,300	7,608	26,196	4,320	16,000	11,044	35,882	6,960	3,600	5,800	
Other	4,045	26,929	37	15,415	12,240	43,405	8,900	9,927	13,935	13,255	7,476	5,369	16,190	13,572	18,387
Total Expenditures	252,678	614,224	17,453	665,146	389,470	281,256	567,669	328,562	290,445	356,816	303,558	249,560	34,826	274,415	311,202
Operating Income (Loss)	34,062	1,940	51,440	(31,156)	(44,374)	49,398	133,323	18,988	40,356	47,221	143,988	(36,784)	103,404	14,983	42,981
Reconciliation to Statement of Income:															
Depreciation and amortization	(56,224)	(64,145)		(91,890)	(106,937)	(43,028)	(134,717)	(62,482)	(123,815)	(84,145)	(76,511)	(16,520)	(18,445)	(46,759)	(25,927)
Reserves additions	21,438	101,500		35,579	13,300	7,608	26,196	4,320	16,000	11,044	35,882	6,960	3,600	5,800	21,920
Interest income - restricted	73	2,737		63	42	1,222	87	320	241	166	115	252	34	529	136
Interest and financial expenses	(16,934)	6,225		(58,133)	(33,743)	(34,814)	(82,738)	(18,071)	(6,419)	(82,521)	(71,704)	(3,676)	(12,985)	(18,108)	8,733
Other income (expense)		6,161		6,877	(14,632)	1,372	5,832	(18,071)	1,750	(19,346)	2,078			(2,297)	(5,112)
Fixed asset additions from operations		1,288					44,877		5,839					5,771	
Expenses paid from reserves										(3,186)		(19,399)			
Debt service payments	64,930	9,080		121,832	82,227	65,996	108,919	36,000		118,020	108,711	15,994		35,700	
Frontline and bookkeeping charges	6,789	27,032		14,346	17,751	9,341	10,883	13,467	13,982	12,155	7,419	5,215		14,696	16,680
Management fees	14,781	103,227		36,000	43,528	56,081	84,039	52,995	44,935	22,907	30,072	13,608	5,745	47,606	50,833
Net Income (Loss)	\$ 68,915	\$ 195,045	\$ 51,440	\$ 33,518	\$ (42,838)	\$ 113,176	\$ 196,701	\$ 45,537	\$ (7,131)	\$ 22,315	\$ 180,050	\$ (32,146)	\$ 86,568	\$ 57,921	\$ 110,244

See independent auditor's report.

COMMUNITY ROOTS HOUSING

**Schedule of Property Operations (Continued)
For the Year Ended December 31, 2020**

	Lincoln Court	Mary Ruth Manor	Maxwell	Melrose	Miller Park	Oleta	Park Hill	Pantages	Seneca	Twelfth AA Master Tenant	Liberty Bank Commercial	Union James Apartments	Villa Apartments	Total
Receipts:														
Rents	\$ 298,800	\$ 507,591	\$ 48,144	\$ 286,613	\$ 154,686	\$ 352,790	\$ 459,210	\$ 519,614	\$ 364,487	\$ 848,797	\$ 48,999	\$ 480,915	\$ 747,590	\$ 12,927,385
Vacancy	(29,740)	(23,418)		(63,310)	(5,983)	(18,946)	(37,135)	(13,141)	(6,786)		(40,109)	(45,012)	(50,466)	(668,375)
Tenant fees	4,963	2,288	450	2,744	4,881	2,166	2,592	37,047	2,871			1,245	21,373	208,373
Other income	3,526	11,780	486	2,314	1,358	3,239	5,868	6,355	2,105	193,108	14	3,237	5,090	325,389
Total Receipts	277,549	498,241	49,080	228,361	154,942	339,249	430,535	549,875	362,677	1,041,905	8,904	440,385	723,587	12,792,772
Expenditures:														
On-site management expense														
Utilities	61,772	107,708	6,648	39,060	31,882	61,008	90,349	98,755	40,705	4,733	116	61,082	86,279	2,031,710
Professional fees	44,433	37,565	4,403	47,542	23,506	52,296	60,548	66,316	43,571	44,270	2,905	41,296	114,553	1,550,742
Insurance	9,545	14,357	5,541	16,131	7,087	22,299	11,603	34,075	19,457	23,351	6,815	15,428	33,298	543,914
Property management fees	10,057	8,052	1,963	9,471	5,397	11,287	15,524	28,726	12,668	23,898	2,107	9,029	26,124	405,556
Repairs, maintenance and improvements	11,415	16,714	4,782	35,602	13,620	17,301	71,744	62,246	74,328	32,938		14,973	78,754	1,337,362
Debt service	66,909	66,663	5,386	67,328	32,648	76,141	40,493	115,125	53,729	84,522	739	94,797	172,553	2,293,076
Reserves	87,923	161,284	4,644	32,688	22,385	92,507	53,820	65,886	58,049	187,893	1,484	100,430	194,714	2,077,133
Other	17,400	28,127	1,440	5,600	10,461	11,900	10,000	30,035	9,464	4,057		9,816	47,216	594,622
	7,887	6,598	1,430	13,724	4,166	6,271	8,599	10,614	8,873	80,908	12,025	11,527	33,622	504,968
Total Expenditures	317,341	447,068	36,237	267,146	151,152	351,010	362,680	511,778	320,844	486,570	26,191	358,378	787,113	11,339,083
Operating Income (Loss)	(39,792)	51,173	12,843	(38,785)	3,790	(11,761)	67,855	38,097	41,833	555,335	(17,287)	82,007	(63,526)	1,453,689
Reconciliation to Statement of Income:														
Depreciation and amortization	(78,932)	(88,707)	(6,316)	(33,391)	(37,477)	(86,746)	(49,128)	(311,900)	(117,076)	(520,912)	(29,273)	(32,888)	(245,337)	(3,017,068)
Reserves additions	17,400	28,127	1,440	5,600	10,461	11,900	10,000	30,035	9,464	4,057		9,816	47,216	594,622
Interest income - restricted	476	143	239	892	1,243	41	1,357	44	55			155	358	17,478
Interest and financial expenses	(68,753)	(101,734)	(401)	(9,686)	(4,333)	(58,864)	(31,842)	(94,246)	(43,974)	(139,150)	(763)	(71,094)	(90,173)	(1,233,110)
Other income (expense)		(7,496)		6,935			(15,889)	(9,073)	(3,393)	(73,755)	(202,094)	(9,342)	25,000	(329,171)
Fixed asset additions from operations	9,870	31,033												129,449
Expenses paid from reserves			4,644	32,688	22,385	92,507	53,820	65,886	58,049	187,893	1,484	100,430	194,714	(221,817)
Debt service payments			6,328	15,609	9,184	17,037	15,609	22,391	16,323	5,133		8,679	27,661	2,077,133
Frontline and bookkeeping charges	15,252	8,049												462,757
Management fees	11,415	16,714	4,782	35,602	13,620	17,301	71,744	62,246	74,328	32,938		14,973	78,754	1,337,362
Net Income (Loss)	\$ (45,141)	\$ 98,586	\$ 23,559	\$ 15,464	\$ 18,873	\$ (18,585)	\$ 123,526	\$ (196,520)	\$ 35,399	\$ 51,539	\$ (242,560)	\$ 102,736	\$ (12,740)	\$ 1,271,324

See independent auditor's report.

COMMUNITY ROOTS HOUSING

Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2020

Federal Grantor/Pass-Through Grantor/Program Title	Federal Assistance Number	Pass-Through Identifying Number	Passed Through to Subrecipients	Federal Disbursements/Expenditures
US Department of Housing and Urban Development:				
Pass-Through Program from-				
Housing Authority of the City of Bremerton:				
Section 8 Housing Assistance Payments Program	14.195	WA19M000017	\$ -	\$ 242,196
Section 8 Housing Assistance Payments Program	14.195	WA19L000022		355,652
Section 8 Housing Assistance Payments Program	14.195	WA19L0000040		550,284
Section 8 Housing Assistance Payments Program	14.195	WA190080005		345,954
Section 8 Housing Assistance Payments Program	14.195	WA19L000027		366,564
Section 8 Housing Assistance Payments Program	14.195	WA19M000202		148,718
State of Washington:				
Section 8 Housing Assistance Payments Program	14.195	Unknown		94,095
Section 8 Housing Assistance Payments Program	14.195	15-46221-004		66,881
Total 14.195				2,170,344
Total Section 8 Project Based Cluster				2,170,344
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
CDBG - Liberty Bank Commercial*	14.218	Unknown		400,000
CDBG - Rental Assistance (CARES Act)	14.218	Unknown		82,265
Total 14.218				3,930,557
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
Total US Department of Housing and Urban Development				8,195,281
Total Federal Expenditures			\$ -	\$ 8,195,281

* Denotes outstanding loan

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

COMMUNITY ROOTS HOUSING

Notes to Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2020

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, 2020. 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, 2020.

Note 3 - Loans Outstanding

The Organization had the following loan balances outstanding at December 31, 2020. 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	\$ 3,848,292
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 Community Roots Housing (fka CHHIP) (CRH), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise CRH's basic financial statements, and have issued our report thereon dated May 27, 2021.

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) as a basis for designing 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 financial statements. 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
May 27, 2021

**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 Community Roots Housing's (fka CHHIP) (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, 2020. 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 \$1,867,889 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 \$1,867,889 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, 2020.

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
May 27, 2021

COMMUNITY ROOTS HOUSING

Schedule of Findings and Questioned Costs For the Year Ended December 31, 2020

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

Federal Assistance Numbers

Name of Federal Program or Cluster

14.195

Section 8 Project-Based Cluster

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, 2020

Section II - Financial Statement Findings

No matters were reported.

Section III - Findings and Questioned Costs for Federal Awards

No matters were reported.