



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

November 7, 2024

Board of Directors
Community Roots Housing
Seattle, Washington

**Contracted CPA Firm's Audit Report on Financial Statements and
Federal Single Audit**

We have reviewed the audit reports issued by a certified public accounting (CPA) firm on the financial statements and compliance with federal grant requirements of Community Roots Housing for the fiscal years ended December 31, 2023 and 2022. The Authority contracted with the CPA firm for these audits and requested that we accept them in lieu of performing our own audit.

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

These reports are being published on the Office of the Washington State Auditor website as a matter of public record.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

Americans with Disabilities

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COMMUNITY ROOTS
— HOUSING —

Financial Statements and Single Audit Reports

For the Years Ended December 31, 2023 and 2022

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Independent Auditor's Report

To the Board of Directors
Community Roots Housing
Seattle, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions

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, 2023 and 2022, and the related notes to the financial statements, which collectively comprise CRH's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements 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, 2023 and 2022, and the respective changes in its financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Governmental Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of CRH and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about CRH's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.



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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 CRH's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about CRH's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 Supplementary 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, and the schedule of expenditures of federal awards 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 28, 2024 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.

Clark Nuber P.S.

Certified Public Accountants
May 28, 2024

COMMUNITY ROOTS HOUSING

Management's Discussion and Analysis For the Year Ended December 31, 2023

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 years ended December 31, 2023 and 2022, with comparative financial information for 2021.

Financial Highlights for 2023

- Assets exceeding liabilities (net position) at the close of 2023 totaled \$52,069,484.
- Unrestricted cash and cash equivalents on December 31, 2023 totaled \$5,311,936.
- CRH properties continued to experience higher than desired vacancy rates across the portfolio (blended and discrete component units) averaging 5.6 percent in 2023 and 7.2 percent in 2022, compared to pre-pandemic levels below 5.0 percent. Improvements in 2023 were driven by moving leasing efforts to a centralized model, and more management emphasis on reducing vacancy.
- In early 2023, the Bremer Apartments project closed on permanent financing.
- In 2023, CRH completed construction on 156 units of affordable housing for 13th & Fir Family Housing (aka Yesler Family), a project in partnership with Seattle Chinatown International District Preservation and Development Authority, under the entity Big Village LLLP.
- In 2023, CRH completed construction on 118 units of affordable housing for Pride Place (aka Eldridge), under the entity Broadway LGBTQ Senior LLLP. CRH also financed the purchase of a retail condominium on the ground floor of the building, under the entity Pride Place Commercial LLC.
- In 2023, CRH completed construction on 126 units of middle-income affordable housing for Heartwood, under the entity Heartwood SPE LLC.
- During 2023, construction activities continued on 126 units of affordable housing for Africatown Plaza, a project in partnership with Africatown Community Land Trust, under the entity Africatown Plaza LLLP.
- In 2023, CRH closed on refinancing for a project to rehabilitate 62 units of affordable housing for Devonshire Apartments. The property assets and debt were transferred to a new entity, Devonshire Apartments LLLP, and construction commenced in the second quarter of 2023.
- In 2023, CRH closed on construction financing and began construction on 232 units of affordable housing for the Northgate project, a partnership with BRIDGE Housing, under the entity Northgate Affordable Housing LLLP. BRIDGE Housing is the lead developer in the partnership.
- In 2023 CRH sold the Fredonia Apartments, and actively marketed 2 other buildings, the Park Hill Apartments and Holden Vista Apartments, which are expected to close on sales in June and September 2024, respectively.
- In September 2023, the Capitol Hill EcoDistrict program of CRH was transferred to an unaffiliated not for profit organization, Urban League of Metropolitan Seattle.

COMMUNITY ROOTS HOUSING

Management's Discussion and Analysis For the Year Ended December 31, 2023

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 42 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, Villa Apartments Limited Partnership, Gilman Court Limited Partnership, 1214 Boylston Avenue Limited Partnership, Fleming Apartments Limited Partnership, Harrison Family Housing Limited Partnership, Oleta Apartments Limited Partnership, Helen V Apartments LLC, Pantages Apartments LLC, Silvian Apartments LLC, Broadway & Pine Apartments LLC, Woodland Park Avenue LLC, CH Real Estate Management Services LLC, Holiday Affordable LLC, Union James Affordable Housing LLC, CH TOD Manager LLC, Liberty Bank Commercial LLC, SOPI Village Manager LLC, CHDA Lake City GP LLC, CHDA Lake City LLLP, CRH Heartwood LLC, CRH Heartwood Manager LLC, Boylston Howell Apartments LLC, John Carney Apartments LLC, Bremer Apartments LLC, Imperial Jazz GP LLC, CRH Yesler LLC, Broadway LGBTQ Senior GP LLC, YC South Annex GP LLC, YC South Annex LLLP, Bonanza 1 GP LLC, Devonshire Apartments GP LLC, Pride Place Commercial LLC, Africatown Plaza GP LLC, Union 24th Manager LLC, DubC LLC, and 12th Avenue Arts Associates 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 (CHDA) has replaced the investor limited partners in the eight limited partnerships. CRH is also the managing member and CHDA has replaced the investor member of Helen V Apartments LLC, Pantages Apartments LLC, Silvian Apartments LLC, and most recently Broadway & Pine Apartments LLC and Woodland Park Avenue LLC in 2022. CRH is the sole member of CH Real Estate Management Services LLC, Holiday Affordable LLC, CHH Squire Park LLC, Union James Affordable Housing LLC, CH TOD Manager LLC, and Liberty Bank Commercial LLC, and has a majority interest in SOPI Village Manager LLC. CHDA is the sole member of CHDA Lake City GP LLC, CRH Heartwood LLC, Boylston Howell Apartments LLC, John Carney Apartments LLC, Bremer Apartments LLC, Imperial Jazz GP LLC, Broadway LGBTQ Senior GP LLC, YC South Annex GP LLC, Devonshire Apartments GP LLC, and Pride Place Commercial LLC, and has a majority interest in Bonanza 1 GP LLC, Africatown Plaza GP LLC, Union 24th Manager LLC, and DubC LLC. Twelfth Avenue Arts Association is the sole member of 12th Avenue Arts Associates LLC. CRH Heartwood LLC has a 90% interest in Heartwood Manager LLC, of which CRH is manager. CHDA Lake City GP LLC is the general partner with 0.01% interest in CHDA Lake City LLLP, and CRH is the initial limited partner with 99.99% interest. YC South Annex GP LLC is the general partner with 0.01% interest in YC South Annex LLLP, and CRH is the initial limited partner with 99.99% interest.

COMMUNITY ROOTS HOUSING

Management's Discussion and Analysis For the Year Ended December 31, 2023

Overview of the Financial Statements (Continued)

The financial statements also include as "Discrete Component Units" 8 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, and 5 for which CRH or CHDA is financially accountable as majority owner of the general partner or managing member and where CRH is also the manager. Additionally, the Community Roots Housing Foundation is included as a discrete component unit. 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.

Overview of the CRH Blended Entity Financial Position and Operations and Discussion of Capital Asset and Long-Term Debt Activity

	December 31, <u>2023</u>	<u>2022</u>	<u>2021</u>
Assets:			
Current assets	\$ 13,841,635	\$ 13,651,609	\$ 16,548,790
Noncurrent assets-			
Capital assets, net	101,514,416	102,935,690	91,455,024
Other	<u>44,028,010</u>	<u>37,642,424</u>	<u>35,852,230</u>
Total Assets	<u>\$ 159,384,061</u>	<u>\$ 154,229,723</u>	<u>\$ 143,856,044</u>
Liabilities:			
Current liabilities	\$ 13,868,004	\$ 10,826,967	\$ 10,345,886
Noncurrent liabilities	<u>92,756,501</u>	<u>96,595,753</u>	<u>84,688,016</u>
Total Liabilities	106,624,505	107,422,720	95,033,902
Deferred Inflow of Resources	<u>690,072</u>	<u>1,364,721</u>	<u>578,394</u>
Total Liabilities and Deferred Inflows of Resources	<u>\$ 107,314,577</u>	<u>\$ 108,787,441</u>	<u>\$ 95,612,296</u>
Net Position:			
Invested in capital assets, net of related debt	\$ 4,513,004	\$ 5,184,536	\$ 3,229,664
Restricted	8,785,876	10,353,101	11,160,492
Unrestricted	<u>38,770,604</u>	<u>29,904,645</u>	<u>33,853,592</u>
Total Net Position	<u>\$ 52,069,484</u>	<u>\$ 45,442,282</u>	<u>\$ 48,243,748</u>

COMMUNITY ROOTS HOUSING

Management's Discussion and Analysis For the Year Ended December 31, 2023

Overview of the CRH Blended Entity Financial Position and Operations and Discussion of Capital Asset and Long-Term Debt Activity (Continued)

The financial assets of CRH consist primarily of capital assets, its land, buildings and building improvements. This is consistent with CRH's mission: together with residents and partners, we confront inequity to create inclusive housing and foster thriving, just communities. 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 2023 by \$6,627,202 and decreased in 2022 by \$2,801,466. In 2023, CRH earned \$7,201,774 from gains on the disposition of two apartment buildings, which also reduced the balances of assets, debt, and deferred inflows related to the properties. In 2022, significant building improvements were placed in service from Boylston Howell, John Carney, and Bremer Apartments which contributed toward a \$988,723, or 31.5 percent, increase in depreciation expense compared to the prior year. Additionally, the Bremer construction project grant receivable balance decreased \$1,763,504 as cash was received.

COMMUNITY ROOTS HOUSING

Management's Discussion and Analysis For the Year Ended December 31, 2023

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,	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating revenues-				
Tenant revenues	\$	13,601,896	\$ 13,270,234	\$ 12,409,666
Fees for services		1,080,011	1,017,856	1,069,683
Project development fees		6,230,743	4,039,839	3,491,086
Other		154,434	65,755	95,722
Nonoperating revenues-				
Contributions and grants		2,194,101	2,981,205	8,031,941
Interest income		644,294	485,457	403,073
Gain on sale of assets		7,102,774	7,230	2,661,478
Total Revenues		31,008,253	21,867,576	28,162,649
Operating expenses-				
Salaries, benefits and payroll taxes		8,741,029	8,814,708	8,020,148
Operating and maintenance		2,988,937	2,603,835	1,943,528
Other operating expenses		6,375,581	5,796,658	5,101,602
Depreciation and amortization		4,328,671	4,127,061	3,138,338
Nonoperating expenses-				
Grants to component units		449,754	1,564,776	1,642,529
Grants to other organizations			70,205	1,928,174
Interest expense		1,497,079	1,488,236	1,315,728
Total Expenses		24,381,051	24,465,479	23,090,047
Change in component units			(203,563)	(531,847)
Change in Net Position		\$ 6,627,202	\$ (2,801,466)	\$ 4,540,755

COMMUNITY ROOTS HOUSING

Management's Discussion and Analysis For the Year Ended December 31, 2023

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

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 increased 2.5% in 2023, as rental rate increases required significant advance notice as well as percentage limitations within the City of Seattle. Rate increases were offset by the disposition of two buildings from the blended portfolio reduced the portfolio by 74 residential units and one commercial space. Tenant revenues increased 6.9 percent in 2022 due to the addition of two buildings to the blended consolidation, Broadway Crossing and Fremont Solstice Apartments, adding 62 rentable units in total. Allowable rental rate increases were delayed in 2022 due to local restrictions, including a residential rate freeze through February 2022, and a new requirement to provide 180 days written notice prior to a housing cost increase. Tenant revenues increased 0.8 percent in 2021 primarily due to the addition of Silvan Apartments to the blended consolidation, adding 32 rentable units. Rental rate increases were limited to subsidized units, with no increases passed to tenants. Vacancy loss was 7.0, 8.5, and 7.3 percent for 2023, 2022, and 2021, respectively. CRH continues to work on improving unit turnaround times, including restructuring the leasing process, investing in new technology, and incorporating aging buildings into the redevelopment pipeline.

CRH earns development fees for its management role in the development of new properties. During 2023 CRH earned development fees of \$6,230,743 for the development of Pride Place, Heartwood, Africatown Plaza, Devonshire, and Northgate projects. CRH earned development fees of \$4,039,839 and \$3,491,086 for 2022 and 2021, respectively, for the development of 13th & Fir (aka Yesler Family), Pride Place, Heartwood, and Africatown Plaza projects.

Salaries, benefits and payroll tax expense, decreased by 0.8 percent in 2023, increased by 9.9 percent in 2022, and increased 7.8 percent in 2021. In 2023 annual pay increases were offset by some workforce reduction, as several positions were eliminated and the EcoDistrict program was transferred to an unaffiliated not for profit agency. Salary and payroll taxes increased in 2021 and 2020 from additional hiring, annual pay increases, base pay market adjustments, and the addition of properties being classified as blended. Health care costs per individual increased by 3.9% in 2023, 2.0 percent in 2022, and decreased by 2.9 percent in 2021.

Operating and maintenance expenses increased 14.8 percent in 2023 and 34.0 percent in 2022, due to increased costs, demand for repairs that were delayed from the COVID-19 pandemic, as well as costs associated with difficult unit turns. Repair costs in the prior two years were also lower than typical levels. Operating and maintenance expenses decreased 3.7 percent in 2021, due to continued impact of the COVID-19 pandemic. Unit turns for vacancies took longer to have their repair and replacement needs addressed, as there were material shortages and our maintenance team was short-staffed. 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 was flat with just a 0.6 percent increase in 2023, as the increase in mix of properties was relatively consistent. Interest expense increased in 2022 by 11.2 percent, primarily from the new debt from the CHP-1 construction project completed for Bremer, Boylston Howell, and John Carney. Additional interest from the Broadway Crossing and Woodland Park Apartments added to the blended presentation. These increases were offset by declining interest from mortgage repayment. Interest expense decreased in 2021 by 1.2 percent, as conventional mortgages paid down principal during the year, partially offset by interest from the Silvan Apartments added to the blended presentation.

COMMUNITY ROOTS HOUSING

Management's Discussion and Analysis For the Year Ended December 31, 2023

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

In 2023, CRH recognized a \$3,995,352 gain on sale from the Fredonia and a \$3,107,422 gain on sale from the Devonshire Apartments into a CRH controlled tax credit entity. In 2022 there were no significant gains from sales transactions. In 2021, CRH recognized a \$2,225,765 gain on sale of the parking lot land from Helen V for development of the Heartwood project. There was also a gain from the disposition of \$379,505 for Squire Park Plaza and \$56,208 for CHDA Lake City.

In 2023, CRH received \$2,194,101 in contributions and grants representing 9 percent of total revenue, excluding gains. This included \$1,155,033 from the Community Roots Housing Foundation, \$485,367 from the City of Seattle Office of Housing, and \$475,000 from the Rise Together Capital Campaign.

In 2022, CRH received \$2,981,205 in contributions and grants representing 14 percent of total revenue. This included \$327,006 from the Federal Emergency Management Agency for the Bremer construction project. Additionally, CRH received \$1,108,115 from the Community Roots Housing Foundation, \$1,023,404 from the City of Seattle Office of Housing, and \$350,000 from the Rise Together Capital Campaign.

In 2021, CRH received \$8,031,941 in contributions and grants representing 31 percent of total revenue, excluding gains. This included \$3,400,333 from the Federal Emergency Management Agency passed through the City of Seattle Office of Emergency Management for the Bremer construction project, which increased revenue without offsetting expenses. Additionally, CRH received \$869,551 from the Community Roots Housing Foundation, \$1,567,260 from the City of Seattle Office of Housing, and \$1,725,850 from the Rise Together Capital Campaign.

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 expenditures plus debt service and scheduled reserve deposits exceeded revenues by \$714,939. In addition to the operating expenditures, CRH spent an additional \$431,506 on repair and maintenance funded from the building reserves.

Economic Factors Affecting CRH's Future

Significant economic factors affecting CRH are as follows:

- Management is evaluating whether aging buildings in the portfolio should be maintained, renovated, or sold. As part of this strategy, a few buildings have recently been identified as candidates for sale or major rehabilitation through the development pipeline. In 2023, the Devonshire Apartments commenced rehabilitation through LIHTC financing, and the Park Hill and Holden Vista Apartments were actively marketed with sales pending in 2024. In 2022, the Fredonia Apartments were actively marketed, and the property sale closed on May 31, 2023. These activities will infuse the organization with unrestricted cash and a gain on sale from each transaction.
- The final installment of public rental assistance totaling \$485,367 was received from the City of Seattle Office of Housing in May 2023, and \$449,753 of funds for rental assistance raised by the Community Roots Housing Foundation were deployed in December 2023.

COMMUNITY ROOTS HOUSING

Management's Discussion and Analysis For the Year Ended December 31, 2023

Economic Factors Affecting CRH's Future (Continued)

- CRH continues to evaluate new potential construction projects for mission alignment and funding availability. The pipeline of new project opportunities has continued to be robust.
- CRH faces risks from the lasting changes to the economic landscape resulting from the COVID-19 pandemic. Risks include loss of residential tenant rents likely due to increases in public tenant protections, and commercial rent, due to decreased economic activity.
- 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 Credits, 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 and inhibit our ability to enforce our leases.
- 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 including increased supply and reduced demand.
- 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. This disproportionately impacts buildings with fewer units, which have less ability to absorb higher costs or to benefit from economies of scale.
- Construction costs have continued to increase, which could impact future developer fee revenue or delay cash collection of developer fees.
- Demand for newly constructed units in the middle income or market rate levels is lower expected, due to current market conditions and many newly constructed units on the market creating significant local competition.

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, 2023 and 2022

	2023		2022	
	CRH	Discrete Component Units	CRH	Discrete Component Units
Current Assets:				
Cash and cash equivalents	\$ 5,311,936	\$ 5,666,077	\$ 6,900,297	\$ 4,470,000
Accounts receivable, net	8,103,639	376,541	6,255,281	593,897
Current portion of pledges receivable, net		301,276		648,573
Current portion of lease receivables	158,025		241,808	
Prepaid expenses and other current assets	268,035	472,348	254,223	236,118
Total Current Assets	13,841,635	6,816,242	13,651,609	5,948,588
Restricted cash and cash equivalents	8,785,876	6,406,975	10,353,101	6,604,279
Net pledges receivable, less current portion				165,967
Deferred rent receivable	321,357		304,544	
Lease receivable, less current portion	706,500		1,269,904	
Long-term deferred developer fees	12,838,137		8,442,355	
Notes and interest receivable	19,976,147		15,860,615	
Land, buildings and equipment, net	101,514,416	291,739,947	102,935,690	218,286,441
Investment in limited partnerships and LLCs	1,399,993		1,411,905	
Capitalized costs, net		420,472		350,875
Total Assets	\$159,384,061	\$305,383,636	\$154,229,723	\$231,356,150

See accompanying notes.

COMMUNITY ROOTS HOUSING

Balance Sheets - Liabilities and Net Position December 31, 2023 and 2022

	2023		2022	
	CRH	Discrete Component Units	CRH	Discrete Component Units
Current Liabilities:				
Accounts payable and accrued liabilities	\$ 2,158,550	\$ 5,045,933	\$ 2,688,956	\$ 3,583,141
Construction payables	641,247	11,511,873	603,932	16,455,209
Deferred income	1,093,781	24,888	847,068	111,043
Current portion of accrued interest payable	102,971	663,796	654,580	156,291
Current portion of notes payable	9,871,455	83,146,261	6,032,431	3,812,548
Total Current Liabilities	13,868,004	100,392,751	10,826,967	24,118,232
Security deposits	430,624	246,477	497,174	210,028
Long-term deferred developer fees		11,334,327		6,264,965
Notes payable, net of current portion	86,488,710	141,908,174	91,114,791	144,826,720
Accrued interest payable	5,837,167	5,838,943	4,983,788	4,695,746
Total Liabilities	106,624,505	259,720,672	107,422,720	180,115,691
Deferred Inflow of Resources	690,072		1,364,721	
Total Liabilities and Deferred Inflows of Resources	107,314,577	259,720,672	108,787,441	180,115,691
Net Position:				
Restricted for building improvements	4,506,998	2,163,170	5,035,179	1,983,297
Restricted for other purposes	4,278,878	4,243,805	5,317,922	4,620,982
Total restricted	8,785,876	6,406,975	10,353,101	6,604,279
Invested in capital assets, net of related debt	4,513,004	55,173,639	5,184,536	53,191,964
Unrestricted	38,770,604	(15,917,650)	29,904,645	(8,555,784)
Total Net Position	52,069,484	45,662,964	45,442,282	51,240,459
Total Liabilities, Deferred Inflows, and Net Position	\$159,384,061	\$305,383,636	\$154,229,723	\$231,356,150

See accompanying notes.

COMMUNITY ROOTS HOUSING

Statements of Revenues, Expenses and Changes in Net Position For the Years Ended December 31, 2023 and 2022

	2023		2022	
	CRH	Discrete Component Units	CRH	Discrete Component Units
Operating Revenues:				
Gross rent potential	\$ 14,412,350	\$ 8,388,662	\$ 14,260,297	\$ 7,406,088
Vacancy loss	(1,015,963)	(783,006)	(1,217,033)	(408,095)
Laundry, parking and other tenant income	205,509	154,903	226,970	169,445
Fees for services	1,080,011		1,017,856	
Project development and other fees	6,230,743		4,039,839	
Other operating revenue	154,434	7,500	65,755	246,748
Total Operating Revenues	21,067,084	7,768,059	18,393,684	7,414,186
Operating Expenses:				
Salaries, benefits and payroll taxes	8,741,029	1,227,533	8,814,708	951,893
Utilities	1,790,072	728,393	1,803,612	632,014
Professional fees	1,059,228	388,532	941,797	328,654
Administrative	1,034,519	988,445	1,219,973	912,443
Taxes and insurance	1,162,807	573,470	997,812	426,132
Operating and maintenance	2,988,937	1,376,154	2,603,835	898,475
Bad debt expense	1,004,888	703,117	537,183	299,827
Grants to CRH and affiliates		1,405,033		1,474,500
Grants to other organizations		109,200		247,092
Other	324,067	491,682	296,281	192,136
Depreciation and amortization	4,328,671	5,127,930	4,127,061	4,619,610
Total Operating Expenses	22,434,218	13,119,489	21,342,262	10,982,776
Operating Loss	(1,367,134)	(5,351,430)	(2,948,578)	(3,568,590)
Nonoperating Revenues (Expenses):				
Contributions and grants	2,194,101	1,796,869	2,981,205	2,737,162
Grants to component units	(449,754)		(1,564,776)	
Grants to other organizations			(70,205)	
In-kind revenue		636,014		620,028
Interest income	644,294	25,477	485,457	6,363
Gain (loss) on disposition of assets	7,102,774	(6,740)	7,230	
In-kind expense		(636,014)		(620,028)
Interest expense	(1,497,079)	(3,364,040)	(1,488,236)	(2,819,383)
Total Nonoperating Revenues (Expenses)	7,994,336	(1,548,434)	350,675	(75,858)
Change in Net Position Before Capital Contributions and Other Changes	6,627,202	(6,899,864)	(2,597,903)	(3,644,448)
Capital Contributions and Other Changes:				
Capital contributions		1,375,181		1,039,228
Syndication costs		(52,812)		
Change in component units			(203,563)	203,563
Total Capital Contributions and Other Changes		1,322,369	(203,563)	1,242,791
Change in Net Position	6,627,202	(5,577,495)	(2,801,466)	(2,401,657)
Beginning of year	45,442,282	51,240,459	48,243,748	53,642,116
End of Year	\$ 52,069,484	\$ 45,662,964	\$ 45,442,282	\$ 51,240,459

See accompanying notes.

COMMUNITY ROOTS HOUSING

Statements of Cash Flows For the Years Ended December 31, 2023 and 2022

	2023		2022	
	CRH	Discrete Component Units	CRH	Discrete Component Units
Cash Flows From Operating Activities:				
Receipts from tenants	\$ 11,649,900	\$ 7,232,592	\$ 13,847,767	\$ 7,364,897
Receipts for developer fees	1,419,524		2,255,437	
Payment of grants		(1,514,233)		(1,721,592)
Payments to employees and for payroll taxes and benefits	(8,526,698)	(1,227,533)	(9,096,892)	(951,893)
Payments to suppliers	(9,118,179)	(2,100,635)	(6,538,039)	(1,414,335)
Net Cash (Used in) Provided by Operating Activities	(4,575,453)	2,390,191	468,273	3,277,077
Cash Flows From Noncapital Financing Activities:				
Receipts from contributions and grants	3,078,621	2,310,133	4,617,808	2,150,343
Payment of grants	(449,754)		(1,634,981)	
Net Cash Provided by Noncapital Financing Activities	2,628,867	2,310,133	2,982,827	2,150,343
Cash Flows From Capital and Related Financing Activities:				
Acquisition of land, building and equipment	(5,579,966)	(78,078,742)	(9,873,501)	(35,364,709)
Proceeds from sale of land, building and equipment	5,838,266	334,051	76,694	
Proceeds from notes payable	3,873,720	75,032,909	6,065,899	23,021,922
Principal payments on notes payable	(4,690,099)	(754,392)	(1,607,780)	(777,504)
Interest paid on notes payable	(1,165,987)	(1,583,216)	(1,261,119)	(2,153,440)
Payment of financing costs		(7)	(63,156)	9,012
Payment of syndication costs		(52,812)		
Capital contributions		1,375,181		1,039,228
Net Cash Used in Capital and Related Financing Activities	(1,724,066)	(3,727,028)	(6,662,963)	(14,225,491)
Cash Flows From Investing Activities:				
Net change in restricted cash and cash equivalents	1,567,225	197,304	1,298,852	200,549
Cash transfer due to change in component units			82,186	(82,186)
Investment in limited partnership	11,912		661,354	
Advances of notes receivable	56,814		809,326	
Interest receipts	446,340	25,477	266,110	6,363
Net Cash Provided by Investing Activities	2,082,291	222,781	3,117,828	124,726
Net Change in Cash and Cash Equivalents	(1,588,361)	1,196,077	(94,035)	(8,673,345)
Cash and cash equivalents, beginning of year	6,900,297	4,470,000	6,994,332	13,143,345
Cash and Cash Equivalents, End of Year	\$ 5,311,936	\$ 5,666,077	\$ 6,900,297	\$ 4,470,000

See accompanying notes.

COMMUNITY ROOTS HOUSING

Statements of Cash Flows (Continued) For the Years Ended December 31, 2023 and 2022

	2023		2022	
	CRH	Discrete Component Units	CRH	Discrete Component Units
Reconciliation of Operating (Loss) Income to Net Cash Provided by Operating Activities:				
Operating loss	\$ (1,367,134)	\$ (5,351,430)	\$ (2,948,578)	\$ (3,568,590)
Adjustments to reconcile operating (loss) income to net cash provided (used) by operating activities-				
Depreciation and amortization	4,328,671	5,127,930	4,127,061	4,619,610
Changes in assets and liabilities:				
Receivables	(7,128,660)	217,356	(2,354,445)	206,650
Prepaid expenses and other current assets	(30,625)	(111,687)	144,845	484,046
Accounts payable and accrued liabilities	(530,406)	2,557,728	929,979	1,491,473
Lease receivable, net of deferred inflows	(27,462)		(39,493)	
Security deposits and deferred income	180,163	(49,706)	608,904	43,888
Net Cash (Used in) Provided by Operating Activities	\$ (4,575,453)	\$ 2,390,191	\$ 468,273	\$ 3,277,077
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	\$ -	\$ -	\$ 68,420	\$ (68,420)
Prepaid expenses and other current assets	\$ -	\$ -	\$ 13,283	\$ (13,283)
Restricted cash and cash equivalents	\$ -	\$ -	\$ 491,461	\$ (315,360)
Land, buildings and equipment, net	\$ -	\$ -	\$ 8,580,187	\$ (8,580,187)
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 185,776	\$ (185,776)
Security deposits	\$ -	\$ -	\$ 27,712	\$ (18,483)
Accrued interest	\$ -	\$ -	\$ 909,796	\$ (909,796)
Notes payable	\$ -	\$ -	\$ 8,299,441	\$ (8,261,387)
Noncash elements of sale of properties from CRH to discrete component unit-				
Issuance of notes receivable (payable)	\$ 3,974,392	\$ (3,974,392)	\$ -	\$ -
Noncash elements of sale of properties from discrete component units to a third party-				
Assumption of mortgage by condominium unit buyer	\$ -	\$ 1,967,864	\$ -	\$ -
Application of prepaid deposit to purchase of condominium unit	\$ -	\$ 1,094,936	\$ -	\$ -

See accompanying notes.

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

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. 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 35 apartment projects and 914 units. Blended component units, although legally separate entities, are, in substance, part of CRH's operations.

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 591 units as well as four projects currently under construction.

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.

During 2023, Devonshire Apartments LLLP, a discrete component unit of CRH, purchased real estate from CRH and began development.

During 2022, all remaining ownership interests in Broadway & Pine Apartments LLC (Broadway) and Woodland Park Avenue LLC (Woodland) were transferred to CH Development Association. As a result, Broadway and Woodland changed from being reported as discrete component units in fiscal year 2021 to blended component units in fiscal year 2022.

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.

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

Note 1 - Continued

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, 2023 and 2022, the carrying amount of CRH's demand deposits was \$11,756,811 and \$13,154,711, respectively, and was not materially different from the bank balances.

At December 31, 2023 and 2022, CRH had \$2,341,001 and \$4,098,687, 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, 2023 and 2022, 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, 2023 and 2022, of \$1,027,267 and \$1,612,510, respectively, is included in cash and cash equivalents.

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.

Deferred Developer Fees - Deferred developer fees earned and receivable by CRH or payable by discrete component units of CRH are included in accounts receivable and construction payables, respectively, on the balance sheets to the extent that management believes they will be paid within one year of the balance sheet dates. Deferred developer fees that management has determined will be paid later than one year from year end are classified as long-term deferred developer fees receivable or payable on the balance sheets. For the years ended December 31, 2023 and 2022, all deferred developer fees receivable were from discrete component units of CRH, with the exception of \$3,676,960 and \$2,907,209, respectively, which were due from Big Village, LLLP. CRH records its investment in Big Village LLLP using the equity method of accounting (Note 6).

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

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.

Accounts receivable consisted of the following at December 31:

	<u>2023</u>	<u>2022</u>
Tenant rent receivables	\$ 1,597,104	\$ 1,529,897
Other non-tenant receivables	2,381,216	1,713,740
Grants receivable		884,520
Developer fees receivable	13,875,040	9,063,821
Receivables from discrete component unit affiliates	4,390,882	2,214,044
Less allowance for doubtful accounts	<u>(981,109)</u>	<u>(403,842)</u>
Total accounts and grants receivable, net	21,263,133	15,002,180
Less long-term deferred developer fees	(12,838,137)	(8,442,355)
Less noncurrent deferred rent receivable	<u>(321,357)</u>	<u>(304,544)</u>
Total Accounts Receivable, Net	<u>\$ 8,103,639</u>	<u>\$ 6,255,281</u>

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 2023 or 2022.

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

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

Note 1 - Continued

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.

Deferred Inflow of Resources - Deferred inflow of resources is the acquisition of net position that is applicable to a future reporting period and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources presented in this manner on the accompanying financial statements represent deferred lease revenue. See Note 4 for additional information on lease revenue.

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

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

Restricted Net Position - Net position has been reported as restricted for building improvements and other purposes due to constraints that are either externally imposed by creditors, grantors, contributors or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. CRH's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

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.

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

Note 1 - Continued

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.

Subsequent Events - CRH has evaluated subsequent events through May 28, 2024, the date on which the financial statements were available to be issued.

Note 2 - Notes and Interest Receivable

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

	<u>2023</u>	<u>2022</u>
<u>Bonanza 1 LLLP</u>		
Note receivable, compounding interest at 2.5%, annual payments from available cash flow through maturity on August 1, 2069.	\$ 7,939,641	\$ 7,996,455
Note receivable, compounding interest at 1.0%, annual payments from available cash flow through maturity on August 1, 2069.	5,663,203	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>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>Devonshire Apartments LLP</u>		
Note receivable, interest at 4.4%, annual payments from available cash flow starting in 2023 through maturity on September 30, 2080.	<u>3,974,392</u>	
Total principal	18,768,872	14,851,294
Accrued interest on the above notes	<u>1,207,275</u>	<u>1,009,321</u>
Total Principal and Interest	<u>\$ 19,976,147</u>	<u>\$ 15,860,615</u>

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

Note 3 - Land, Buildings and Equipment

Land, buildings and equipment activity consisted of the following:

	January 1, 2023	Increases	Decreases	Change in Component Units	Net Transfers	December 31, 2023
Nondepreciable assets-						
Land	\$ 22,545,238	\$ 575,758	\$ (1,027,000)	\$ -	\$ -	\$ 22,093,996
Pre-development costs	4,875,711	4,935,506	(391,372)		(277,999)	9,141,846
Depreciable assets-						
Buildings and facilities	140,750,218	28,686	(3,794,204)		277,999	137,262,699
Equipment and vehicles	4,526,221	78,709	(282,815)			4,322,115
Less accumulated depreciation	<u>(69,761,698)</u>	<u>(4,308,649)</u>	<u>2,764,107</u>			<u>(71,306,240)</u>
	<u>\$ 102,935,690</u>	<u>\$ 1,310,010</u>	<u>\$(2,731,284)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 101,514,416</u>
	January 1, 2022	Increases	Decreases	Change in Component Units	Net Transfers	December 31, 2022
Nondepreciable assets-						
Land	\$ 20,617,242	\$ -	\$ -	\$ 1,927,996	\$ -	\$ 22,545,238
Pre-development costs	19,113,221	6,821,104	(131,048)		(20,927,566)	4,875,711
Depreciable assets-						
Buildings and facilities	105,931,513	236,341		13,712,199	20,870,165	140,750,218
Equipment and vehicles	3,884,265	79,039		505,516	57,401	4,526,221
Less accumulated depreciation	<u>(58,091,217)</u>	<u>(4,104,956)</u>		<u>(7,565,525)</u>		<u>(69,761,698)</u>
	<u>\$ 91,455,024</u>	<u>\$ 3,031,528</u>	<u>\$ (131,048)</u>	<u>\$ 8,580,186</u>	<u>\$ -</u>	<u>\$ 102,935,690</u>

During 2023, property held by CRH with a net book value of \$1,083,479 was sold to Devonshire Apartments LLLP, a discrete component unit. The total sales price was \$4,875,000, and was partially seller-financed with a note receivable issued to CRH for \$3,974,392. During 2023, the Fredonia property was also sold to a third party for a total sales price of \$5,000,000.

During 2022, the investor member units in Broadway & Pine Apartments LLC (Broadway) and Woodland Park Avenue LLC (Woodland) were transferred to CRH, changing Broadway and Woodland to blended component units. These transfers resulted in a net increase of \$8,580,186.

COMMUNITY ROOTS HOUSING

**Notes to Financial Statements
For the Years Ended December 31, 2023 and 2022**

Note 4 - Leases

CRH, as lessor, leases virtually all of its real property under a variety of short-term leases of residential space to residents and long-term leases of commercial space, garage space, and land to both affiliated entities and unrelated third-parties. CRH, as lessee, also leases an immaterial amount of office equipment.

Resident Leases - CRH, as lessor, leases apartments under noncancelable terms of less than one year to residents.

Leases of Commercial Space and Land (GASB Accounting) - CRH leases commercial space and land to other entities under leases that expire at various dates through 2031. Some of these agreements also include reimbursement of operating expense reimbursement by the tenants. The present value of the future base lease payments associated with these leases are recorded in the balance sheet as lease receivables and deferred inflow of resources. Future base lease payments under these leases is as follows:

For the Year Ending December 31,	Principal	Interest	Total Receipts
2024	\$ 158,026	\$ 56,951	\$ 214,977
2025	178,059	44,373	222,432
2026	199,969	30,199	230,168
2027	160,142	15,045	175,187
2028	66,050	8,311	74,361
2029-2033	102,279	5,799	108,078
	\$ 864,525	\$ 160,678	\$ 1,025,203

Leases of Commercial Space and Land (FASB Accounting) - Certain blended component units of CRH follow the accounting requirements of the Financial Accounting Standards Board (FASB). Entities that are lessors that follow FASB accounting do not record lease receivables and deferred inflow of resources, and instead record lease revenues when earned. These entities have leases that expire at various dates through 2054. These leases that are for commercial space typically include some form of operating expense reimbursement by the tenant. Minimum future lease revenue under these leases is as follows:

For the Year Ending December 31,	
2024	\$ 936,843
2025	567,715
2026	355,213
2027	260,090
2028	219,416
Thereafter	3,121,968
	\$ 5,461,245

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

Note 4 - Continued

Inflows from Leasing Activities - Lease related revenue recorded on the statement of revenues, expenses, and changes in net position under these leases is as follows for the years ended December 31:

	<u>2023</u>	<u>2022</u>
Residential rents	\$ 12,025,921	\$ 11,552,123
Leases of commercial space and land-		
Base lease revenue	1,048,204	1,092,118
Variable and other lease revenue	<u>322,262</u>	<u>399,023</u>
Total Gross Rent Potential, Net of Vacancy Loss	<u>\$ 13,396,387</u>	<u>\$ 13,043,264</u>
Interest Income From Leasing	<u>\$ 67,636</u>	<u>\$ 73,611</u>

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>2023</u>	<u>2022</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.	\$ 21,253,353	\$ 20,824,894
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 2076. Certain loans may be forgiven in their entirety if conditions are met through the extended maturity date.	46,594,518	48,655,003
For 2022, construction loans with a commercial bank (Heritage) to renovate real property, bearing interest of 3.52%. Repayment starts after the conversion dates until maturity dates, 120 months after conversion date. Converted January 2023. For 2023, construction loans with a commercial bank (JP Morgan Chase) to renovate and construction of real property bearing an interest rate of LIBOR plus 2% (7.84% at December 31, 2023) to be repaid upon maturity date on January 1, 2024.	1,288,163	1,938,806

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

Note 5 - Continued

	<u>2023</u>	<u>2022</u>
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 2052. 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.	19,094,002	19,309,297
Equity equivalent investment loan, interest only at 2.0% payable quarterly, repaid in full in October 2023.		300,000
Predevelopment loan with nonprofit, bearing interest at 2%. Principal due at maturity in December 31, 2024, in conjunction with closing on permanent financing.	350,000	350,000
Predevelopment line of credit with private foundation; maximum \$1.5 million available, interest at 3% payable quarterly. Principal to be paid in full upon maturity in September 2024.	1,490,000	1,490,000
Capacity building loan of \$2.5 million with private organization, bearing interest at 5.5%, refinanced at 4.5%, payable quarterly. Principal and interest due in full upon maturity, January 30, 2025 and a \$1.25 million loan bearing interest a 5.67% due fully upon maturity, July 26, 2026.	3,750,000	2,500,000
Predevelopment line of credit with one lender; maximum of \$2,000,000 available, interest at 5.75%. Principal to be paid in full upon original maturity date in July 2021. Extended through July 2024 at 6.5%.	2,421,356	1,725,153
Northern Investors Company insurance financing loan. Current year note bearing interest at 7.50% annually, to be repaid in full January 1, 2024.	50,828	44,898
Revolving line of credit with a commercial bank with a maximum of \$500,000 available and a variable interest rate calculated annually, currently 8.5%, payable in full in December 1, 2024.	<u>500,000</u>	<u>500,000</u>
Total principal	96,792,220	97,638,051
Less current portion of notes payable	(9,871,455)	(6,032,431)
Less unamortized financing costs	<u>(432,055)</u>	<u>(490,829)</u>
Noncurrent Portion	<u>\$ 86,488,710</u>	<u>\$ 91,114,791</u>

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

Note 5 - Continued

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

For the Year Ending December 31,	<u>Principal</u>	<u>Interest</u>
2024	\$ 9,871,455	\$ 1,200,228
2025	1,745,397	1,117,436
2026	2,227,702	1,040,929
2027	1,607,918	959,594
2028	8,992,449	875,111
2029 - 2033	19,936,363	2,067,245
2034 - 2038	11,519,682	581,424
2039 - 2043	6,536,910	320,243
2044 - 2048	3,696,489	185,245
2049 - 2053	4,034,466	48,258
2054 - 2058	11,659,944	
Thereafter	14,963,445	
	<u>\$ 96,792,220</u>	<u>\$ 8,395,713</u>

Accrued interest payable on the above notes payable totaled \$5,940,138 and \$5,504,514 at December 31, 2023 and 2022, respectively and is presented separately from the above total for notes payable on the balance sheets. Interest expense on the above notes payable aggregated \$1,497,079 and \$1,488,236 for fiscal years 2023 and 2022, 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.

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

Note 5 - Continued

Long-term liability activity consisted of the following during 2023:

	Notes Payable	Accrued Interest Payable
	<u> </u>	<u> </u>
Beginning balance, December 31, 2022	\$ 97,147,222	\$ 5,638,368
Increases-		
CRH	3,873,720	
Accrual, net of forgiven interest		1,467,757
Decreases-		
Payments	(4,690,099)	(1,165,987)
Amortization of financing costs	29,322	
Ending Balance, December 31, 2023	<u><u>\$ 96,360,165</u></u>	<u><u>\$ 5,940,138</u></u>

Long-term liability activity consisted of the following during 2022:

	Notes Payable	Accrued Interest Payable
	<u> </u>	<u> </u>
Beginning balance, December 31, 2021	\$ 84,768,237	\$ 4,544,090
Increases-		
CRH	6,065,899	
Accrual, net of forgiven interest		1,445,246
Transfers from changes in reporting unit-		
Silvian	4,440,602	509,030
Africatown Plaza	3,500,430	301,448
Decreases-		
Payments	(1,607,780)	(1,161,446)
Payment of financing costs	(63,156)	
Amortization of financing costs	42,990	
Ending Balance, December 31, 2022	<u><u>\$ 97,147,222</u></u>	<u><u>\$ 5,638,368</u></u>

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

Note 6 - Investments in Limited Partnerships and LLCs

CRH is the sole general partner and owns a 0.01% interest in one limited partnership, Twelfth Avenue Arts Housing LLLP, and is the managing member and owns a 0.01% interest in two LLCs, Affordable Apartments Associates LLC and Jefferson & 12th LLC. CRH owns a 51% interest in, and is the managing member of SOPI Village Manager LLC, who is the managing member, and 0.01% owner of SOPI Village LLC. CRH is the sole member of CH TOD Management LLC and Holiday Affordable LLC, which have a 0.01% management member interest in CH TOD LLC and a general partner interest in Holiday Apartments LP, respectively. CHDA is the majority member of Bonanza 1 GP LLC, Union 24th Manager LLC, and Africatown Plaza GP LLC, which have a 0.01% general partner or managing member interest in Bonanza 1 LLLP, Union and 24th Associates LLC, and Africatown Plaza LLLP, respectively. CHDA is the sole member of CRH Heartwood LLC, which has a 90% management member interest in Heartwood Manager LLC, which has an 8% membership interest in Heartwood QOZB 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 Broadway LGBTQ Senior GP LLC, which has a 0.01% general partner interest in Broadway LGBTQ Senior LLLP. 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. CHDA is the sole member of Devonshire Apartments GP LLC, which has a 0.01% general partner interest in DubC LLLP. CHDA is the sole member of Pride Place Commercial LLC. CHDA is the sole member of CHDA Lake City GP LLC, which has a 0.01% general partner interest in CHDA Lake City LLLP along with CRH as the 99.99% partner. CHDA Lake City LLLP owns a 49% interest in LUP Rainier & Genesee LLC.

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 2023 and 2022, CRH earned property management fees of \$766,844 and \$624,545 respectively, and limited partnership and LLC management fees of \$132,889 and \$167,581 respectively, from these entities. Additionally, CRH earned development and other fees totaling \$6,172,243 and \$3,491,086 in 2023 and 2022, respectively, from these entities.

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

Note 6 - Continued

The following is a summary of selected financial information as of and for the year ended December 31, 2023, from the limited partnerships and LLCs described above and also represents condensed financial information for the aggregated discretely presented component units:

	December 31, 2023		
	Assets	Liabilities	Equity
Affordable Apartments Associates LLC	\$ 6,935,299	\$ 6,043,908	\$ 891,391
Africatown Plaza LLLP	57,334,063	54,855,557	2,478,506
Bonanza 1 LLLP	38,178,406	27,412,969	10,765,437
Broadway LGBTQ Senior LLLP	45,145,562	43,433,078	1,712,484
Capitol Hill Housing Foundation	1,635,969	114,701	1,521,268
CH TOD LLC	31,202,531	24,953,713	6,248,818
Devonshire Apartments LLLP	11,566,664	10,234,293	1,332,371
Heartwood QOZB LLC	42,391,889	26,276,764	16,115,125
Holiday Apartments Limited Partnership	5,226,294	5,777,805	(551,511)
Imperial Jazz LLLP	6,356,022	6,205,220	150,802
Jefferson & 12th LLC	8,896,603	9,043,966	(147,363)
SOPI Village LLC	6,034,794	6,223,364	(188,570)
Twelfth Avenue Arts Housing LLLP	16,689,615	16,466,512	223,103
Union and 24th Associates LLC	27,789,925	22,678,822	5,111,103
Discretely Presented Component Units	<u>\$ 305,383,636</u>	<u>\$ 259,720,672</u>	<u>\$ 45,662,964</u>
Big Village LLLP	\$ 78,673,334	\$ 55,376,646	\$ 23,296,688
Northgate Affordable Housing LLLP	\$ 15,971,713	\$ 10,711,613	\$ 5,260,100

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

Note 6 - Continued

	Year Ended December 31, 2023	
	Total Revenues	Net Income (Loss)
Affordable Apartment Associates LLC	\$ 501,949	\$ 10,413
Africatown Plaza LLLP	6,780	(159,294)
Bonanza 1 LLLP	1,581,565	(1,543,254)
Broadway LGBTQ Senior LLLP	121,715	(1,226,940)
Capitol Hill Housing Foundation	2,429,576	26,498
CH TOD LLC	1,570,971	(1,230,807)
Devonshire Apartments LLLP	146,127	(42,810)
Heartwood QOZB LLC	7,026	(143,931)
Holiday Apartments Limited Partnership	352,716	(267,312)
Imperial Jazz LLLP		
Jefferson & 12th LLC	583,702	(355,171)
SOPI Village LLC	325,899	(428,206)
Twelfth Avenue Arts Housing LLLP	1,201,823	(528,204)
Union and 24th Associates LLC	1,396,570	(1,010,846)
Discretely Presented Component Units	\$ 10,226,419	\$ (6,899,864)
Big Village LLLP	\$ 451,604	\$ (3,126,475)
Northgate Affordable Housing LLLP	\$ 2,658	\$ 57,425

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

Note 6 - Continued

The following is a summary of selected financial information as of and for the year ended December 31, 2022, from the limited partnerships and LLCs described above and represents condensed financial information for the aggregated discretely presented component units:

	December 31, 2022		
	Assets	Liabilities	Equity
Affordable Apartments Associates LLC	\$ 6,894,417	\$ 6,013,439	\$ 880,978
Africatown Plaza LLP	21,305,482	18,667,682	2,637,800
Bonanza 1 LLLP	39,744,083	27,435,392	12,308,691
Broadway LGBTQ Senior LLLP	30,292,852	27,300,616	2,992,236
Capitol Hill Housing Foundation	1,569,526	74,756	1,494,770
CH TOD LLC	32,320,222	24,840,597	7,479,625
Heartwood QOZB	26,539,318	10,280,262	16,259,056
Holiday Apartments Limited Partnership	5,369,246	5,653,445	(284,199)
Imperial Jazz LLLP	5,712,007	5,561,205	150,802
Jefferson & 12th LLC	9,186,663	8,978,855	207,808
SOPI Village LLC	6,344,821	6,105,185	239,636
Twelfth Avenue Arts Housing LLLP	17,487,383	16,736,076	751,307
Union and 24th Associates LLC	28,590,130	22,468,181	6,121,949
Discretely Presented Component Units	<u>\$ 231,356,150</u>	<u>\$ 180,115,691</u>	<u>\$ 51,240,459</u>
Big Village LLLP	\$ 59,418,721	\$ 56,011,047	\$ 3,407,674

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

Note 6 - Continued

	Year Ended December 31, 2022	
	Total Revenues	Net Income (Loss)
Affordable Apartments Associates LLC	\$ 462,039	\$ (11,608)
Africatown Plaza LLP	157,297	154,494
Bonanza 1 LLLP	1,579,220	(1,225,216)
Broadway LGBTQ Senior LLLP	273	273
Capitol Hill Housing Foundation	3,092,762	391,504
CH TOD LLC	1,569,934	(944,301)
Heartwood QOZB		
Holiday Apartments Limited Partnership	331,092	(180,983)
Imperial Jazz LLLP		
Jefferson & 12th LLC	576,587	(302,846)
SOPV Village LLC	302,501	(395,314)
Twelfth Avenue Arts Housing LLLP	1,273,862	(431,892)
Union and 24th Associates LLC	1,432,172	(698,559)
Discretely Presented Component Units	<u>\$ 10,777,739</u>	<u>\$ (3,644,448)</u>
Big Village LLLP	\$ 5,122	\$ 3,209

In addition to the notes receivable described in Note 2, CRH has recorded accounts and developer fees receivable from the limited partnerships and LLCs described above with a net balance of \$13,875,040 and \$9,063,821 at December 31, 2023 and 2022, respectively. The receivable balance at December 31, 2023 and 2022 is included in accounts receivable and long-term deferred developer fees 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, with the exception of SOPV Village LLC.

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, 2023 and 2022, CRH had \$104,954,800 and \$34,909,283 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, 2023 and 2022

Note 7 - Blended Component Units

The following condensed combining information is presented as of and for the years ended December 31, 2023 and 2022 for blended components as summarized in a single column titled CRH in the basic financial statements. Certain reclassifications were made during 2023 causing a change to the net position and cash and cash equivalents balances at the beginning of 2023 from December 31, 2022 by unit type but not for total net position or total cash and cash equivalents balances.

Condensed combining information for the 2023 balance sheet is presented below:

	CRH	Housing Blended Component Units	Non-Housing Blended Component Units	Eliminations in Blending	Total
Assets:					
Current assets	\$ 16,298,741	\$ 2,382,575	\$ 574,062	\$ (5,413,743)	\$ 13,841,635
Noncurrent assets-					
Capital assets, net	13,874,776	59,312,606	28,051,079	275,955	101,514,416
Other	39,529,257	5,890,234	874,296	(2,265,777)	44,028,010
Total Assets	<u>\$ 69,702,774</u>	<u>\$ 67,585,415</u>	<u>\$ 29,499,437</u>	<u>\$ (7,403,565)</u>	<u>\$ 159,384,061</u>
Liabilities:					
Current liabilities	\$ 10,176,241	\$ 5,144,947	\$ 3,960,559	\$ (5,413,743)	\$ 13,868,004
Noncurrent liabilities	20,023,156	65,494,333	9,504,789	(2,265,777)	92,756,501
Total Liabilities	<u>\$ 30,199,397</u>	<u>\$ 70,639,280</u>	<u>\$ 13,465,348</u>	<u>\$ (7,679,520)</u>	<u>\$ 106,624,505</u>
Deferred Inflow of Resources	<u>\$ 406,220</u>	<u>\$ -</u>	<u>\$ 283,852</u>	<u>\$ -</u>	<u>\$ 690,072</u>
Net Position:					
Invested in capital assets, net of related debt	\$(11,714,042)	\$ (1,224,824)	\$ 17,175,915	\$ 275,955	\$ 4,513,004
Restricted	2,662,908	5,824,822	298,146		8,785,876
Unrestricted	48,148,291	(7,653,863)	(1,723,824)		38,770,604
Total Net Position	<u>\$ 39,097,157</u>	<u>\$ (3,053,865)</u>	<u>\$ 15,750,237</u>	<u>\$ 275,955</u>	<u>\$ 52,069,484</u>

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

Note 7 - Continued

Condensed combining information for the 2023 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	\$ 3,306,752	\$ 9,507,839	\$ 1,244,069	\$ (456,764)	\$ 13,601,896
Fees for services	2,145,650			(1,065,639)	1,080,011
Project development fees	6,230,743				6,230,743
Other	30,839	120,828	2,767		154,434
Total Operating Revenues	11,713,984	9,628,667	1,246,836	(1,522,403)	21,067,084
Operating expenses	10,777,961	8,344,910	505,079	(1,522,403)	18,105,547
Depreciation and amortization	697,311	3,211,907	574,624	(155,171)	4,328,671
Total Operating Expenses	11,475,272	11,556,817	1,079,703	(1,677,574)	22,434,218
Operating Income (Loss)	238,712	(1,928,150)	167,133	155,171	(1,367,134)
Nonoperating revenues (expenses)-					
Contributions and grants	3,007,926	1,976		(815,801)	2,194,101
Grant to component unit	(1,265,555)			815,801	(449,754)
Interest income	593,401	27,041	23,852		644,294
Gain on disposition of assets	7,102,774				7,102,774
Interest expense	(260,653)	(1,067,473)	(168,953)		(1,497,079)
Change in Net Position	9,416,605	(2,966,606)	22,032	155,171	6,627,202
Net Position:					
Beginning of year	29,680,552	(87,259)	15,728,205	120,784	45,442,282
End of Year	\$ 39,097,157	\$ (3,053,865)	\$ 15,750,237	\$ 275,955	\$ 52,069,484

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

Note 7 - Continued

Condensed combining information for the 2023 statement of cash flows is presented below:

	<u>CRH</u>	<u>Housing Blended Component Units</u>	<u>Non-Housing Blended Component Units</u>	<u>Eliminations in Blending</u>	<u>Total</u>
Net cash (used) provided by operating activities	\$ (8,720,362)	\$ 1,101,395	\$ 3,043,514	\$ -	\$ (4,575,453)
Net cash provided by noncapital financing activities	1,912,237	716,630			2,628,867
Net cash provided (used) by capital and related financing activities	3,416,817	(2,680,688)	(2,460,195)		(1,724,066)
Net cash provided (used) by investing activities	<u>2,323,601</u>	<u>(212,198)</u>	<u>(29,112)</u>		<u>2,082,291</u>
Net change in cash and cash equivalents	(1,067,707)	(1,074,861)	554,207		(1,588,361)
Cash and cash equivalents, beginning of year	<u>3,680,470</u>	<u>2,903,643</u>	<u>316,184</u>		<u>6,900,297</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,612,763</u>	<u>\$ 1,828,782</u>	<u>\$ 870,391</u>	<u>\$ -</u>	<u>\$ 5,311,936</u>

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

Note 7 - Continued

Condensed combining information for the 2022 balance sheet is presented below:

	CRH	Housing Blended Component Units	Non-Housing Blended Component Units	Eliminations in Blending	Total
Assets:					
Current assets	\$ 11,504,931	\$ 4,202,820	\$ 704,725	\$ (2,760,867)	\$ 13,651,609
Noncurrent assets-					
Capital assets, net	14,964,401	62,187,879	25,662,626	120,784	102,935,690
Other	33,394,663	5,668,353	861,902	(2,282,494)	37,642,424
Total Assets	<u>\$ 59,863,995</u>	<u>\$ 72,059,052</u>	<u>\$ 27,229,253</u>	<u>\$(4,922,577)</u>	<u>\$ 154,229,723</u>
Liabilities:					
Current liabilities	\$ 6,515,855	\$ 6,400,990	\$ 670,989	\$ (2,760,867)	\$ 10,826,967
Noncurrent liabilities	24,084,974	65,160,870	9,632,403	(2,282,494)	96,595,753
Total Liabilities	<u>\$ 30,600,829</u>	<u>\$ 71,561,860</u>	<u>\$ 10,303,392</u>	<u>\$(5,043,361)</u>	<u>\$ 107,422,720</u>
Deferred Inflow of Resources	<u>\$ 1,036,879</u>	<u>\$ -</u>	<u>\$ 327,842</u>	<u>\$ -</u>	<u>\$ 1,364,721</u>
Net Position:					
Invested in capital assets, net of related debt	\$(10,588,250)	\$ (203,641)	\$ 15,855,643	\$ 120,784	\$ 5,184,536
Restricted	4,505,619	5,602,300	245,182		10,353,101
Unrestricted	34,308,918	(4,901,467)	497,194		29,904,645
Total Net Position	<u>\$ 28,226,287</u>	<u>\$ 497,192</u>	<u>\$ 16,598,019</u>	<u>\$ 120,784</u>	<u>\$ 45,442,282</u>

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

Note 7 - Continued

Condensed combining information for the 2022 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	\$ 3,581,056	\$ 8,877,793	\$ 1,234,675	\$ (423,290)	\$ 13,270,234
Fees for services	2,062,677			(1,044,821)	1,017,856
Project development fees	4,039,839				4,039,839
Other	36,301	27,541	1,913		65,755
Total Operating Revenues	9,719,873	8,905,334	1,236,588	(1,468,111)	18,393,684
Operating expenses	11,515,980	6,664,499	502,833	(1,468,111)	17,215,201
Depreciation and amortization	749,689	2,923,164	574,992	(120,784)	4,127,061
Total Operating Expenses	12,265,669	9,587,663	1,077,825	(1,588,895)	21,342,262
Operating Income (Loss)	(2,545,796)	(682,329)	158,763	120,784	(2,948,578)
Nonoperating revenues (expenses)-					
Contributions and grants	2,652,123	329,082			2,981,205
Grant to component unit	(1,564,776)				(1,564,776)
Grants to other organizations			(70,205)		(70,205)
Interest income	448,418	10,879	26,160		485,457
Gain on disposition of assets	7,230				7,230
Interest expense	(204,153)	(1,135,229)	(148,854)		(1,488,236)
Change in Net Position Before Capital Contributions and Other Changes	(1,206,954)	(1,477,597)	(34,136)	120,784	(2,597,903)
Capital Contributions and Other Changes:					
Change in component units		(203,563)			(203,563)
Total Capital Contributions and Other Changes		(203,563)			(203,563)
Change in Net Position	(1,206,954)	(1,681,160)	(34,136)	120,784	(2,801,466)
Net Position:					
Beginning of year	29,433,241	2,178,352	16,632,155		48,243,748
End of Year	\$ 28,226,287	\$ 497,192	\$ 16,598,019	\$ 120,784	\$ 45,442,282

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

Note 7 - Continued

Condensed combining information for the 2021 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	\$ (2,870,521)	\$ 2,822,461	\$ 516,333	\$ -	\$ 468,273
Net cash provided (used) by noncapital financing activities	960,446	2,092,586	(70,205)		2,982,827
Net cash (used) provided by capital and related financing activities	395,339	(6,266,236)	(792,066)		(6,662,963)
Net cash provided (used) by investing activities	854,292	2,183,366	80,170		3,117,828
Net change in cash and cash equivalents	(660,444)	832,177	(265,768)		(94,035)
Cash and cash equivalents, beginning of year	4,426,808	368,272	2,199,252		6,994,332
Cash and Cash Equivalents, End of Year	\$ 3,766,364	\$ 1,200,449	\$ 1,933,484	\$ -	\$ 6,900,297

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 2023 and 2022 were two percent of gross wages annually and were in the amounts of \$137,160 and \$134,898, respectively. As of December 31, 2023 and 2022, accrued pension costs, including employee deferrals, totaled \$132,741 and \$147,965, respectively. There were no Plan forfeitures for either the years ended December 31, 2023 and 2022.

Note 9 - Acquisitions and Development

During 2023, CRH was engaged in the following acquisitions and development projects:

Capitol Hill Transit Oriented Development (aka Station House) - In the third quarter of 2021, CRH closed on permanent financing of 110 affordable units. Due to the COVID-19 pandemic, the property was not able to collect resident rents to satisfy the lender, Freddie Mac. An agreement was reached where Freddie Mac would close but CRH was required to secure a \$1.5 million Letter of Credit written by KeyBank. The Letter of Credit requirement would be released once the property meets the conversion underwriting requirements on collections and operations or it may be modified by November 2023. This was extended one additional year, to November 2024. CRH expects that the property will meet the underwriting requirements before this date.

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

Note 9 - Continued

13th & Fir Family Housing Development (aka Yesler Family) - CRH, in partnership with Seattle Chinatown International District Preservation and Development Authority, completed construction in May 2023 on 156 units of affordable housing, on land leased from Seattle Housing Authority. The initial lease up was completed by February 2024.

Pride Place Development (aka Eldridge) - CRH, in partnership with nonprofit organization GenPride, completed construction in August 2023 on 118 units of LGBTQIA+ Affirming senior affordable housing. The initial lease up is in process.

Heartwood Development (aka Union and 14th) - CRH completed construction in November 2023 on 126 units of middle-income affordable housing. The initial lease up is in process.

Africatown Plaza Development - CRH, in partnership with Africatown Community Land Trust, continued construction on 126 units of affordable housing. Construction is expected to be completed in the second quarter of 2024.

Devonshire Development - CRH commenced construction to rehabilitate a 62 unit building in the existing portfolio, after closing on construction financing and transferring ownership of the building to a new partnership. Construction is expected to be substantially completed in the third quarter of 2024, and temporarily relocated residents will be able to move back to their apartment homes, construction in common areas will continue and complete in the fourth quarter.

Jazz House Development - CRH, continued predevelopment activities for 134 units of middle-income affordable housing. The community partner decided to exit the project, therefore activities at the end of 2023 consisted of redesign work and identifying additional funding sources or cost savings. The project is commencing with closing efforts in the second quarter of 2024, but further equity and partnership revisions may be required prior to final closing in order to ensure the project is financially feasible.

Broadway Center for Youth (aka Seattle Central Annex Development) - CRH, in partnership with nonprofit organization YouthCare, continued project design activities for approximately 84 units of affordable housing, including 15 units set aside for homeless youth. Financial closing and construction are expected to begin in the second quarter of 2024.

White Center Development - In connection with several White Center community organizations, CRH continued predevelopment activities to develop approximately 76 units of affordable housing in partnership with the White Center Community Development Association and develop the HUB, a community resource center owned by the community organizations on King county-owned property in White Center. The housing project and community resource center are expected to close on their separate respective financing and begin construction in the second quarter of 2024.

Northgate Development - CRH, in partnership with BRIDGE Housing, closed on construction financing for approximately 232 units of affordable housing near the Northgate Light Rail Station. Construction commenced in the first quarter of 2024.

Seattle Mennonite Church - CRH, in partnership with Seattle Mennonite Church, intends to redevelop the existing church property to create approximately 250 units of affordable housing in Seattle's Lake City neighborhood. In April 2022 the land purchase agreement was completed. The project will apply for public funding again in 2024.

COMMUNITY ROOTS HOUSING

Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

Note 9 - Continued

Rainier & Genesee Development - CRH intends to create approximately 140 units of affordable housing in Seattle's Columbia City neighborhood. CRH completed the land acquisition in the first quarter of 2024. Active environmental remediation activities on the site are complete, and natural attenuation over the next 12-24 months should reduce site contaminants below Washington State Department of Ecology cleanup levels.

Note 10 - Contingencies

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

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

Note 11 - Risk Management

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

SUPPLEMENTARY INFORMATION

COMMUNITY ROOTS HOUSING

**Schedule of Departmental Operations
For the Year Ended December 31, 2023**

	Property Operations	Administration and Management	Total
Receipts:			
Rents	\$ 14,880,121	\$ -	\$ 14,880,121
Vacancy	(1,015,963)		(1,015,963)
Tenant fees	205,507		205,507
Development fees		6,230,743	6,230,743
Fees for services		1,080,011	1,080,011
Contributions and grants		1,717,226	1,717,226
Other income	112,947	41,487	154,434
Total Receipts	14,182,612	9,069,467	23,252,079
Expenditures:			
On-site management expense	2,333,524		2,333,524
Office salaries, benefits and payroll taxes		6,407,505	6,407,505
Utilities	1,790,072		1,790,072
Professional fees	799,462	259,766	1,059,228
Insurance	803,969	106,114	910,083
Property management fees	1,168,776		1,168,776
Repairs, maintenance and improvements	3,010,749	392,210	3,402,958
Debt service	2,415,886	(218)	2,415,669
Reserves	1,549,414		1,549,414
Other	1,025,700	(1,012,969)	12,731
Total Expenditures	14,897,551	6,152,409	21,049,960
Operating Income	(714,939)	2,917,058	2,202,119
Reconciliation to Statement of Income:			
Depreciation and amortization	(4,391,477)	62,806	(4,328,671)
Reserves additions	1,549,414		1,549,414
Reserves transfer between buildings			
Interest income - restricted	115,500	528,794	644,294
Interest and financial expenses	(1,391,835)	(105,244)	(1,497,079)
Other income (expense)	(603,987)	(449,855)	(1,053,842)
Fixed asset additions from operations	24,031		24,031
Total expenses paid from reserves	(431,506)		(431,506)
Debt service payments	2,415,886	(218)	2,415,669
Management fees	1,168,776	(1,168,776)	
Gain (loss) on disposal	7,102,773		7,102,773
Net Income	\$ 4,842,636	\$ 1,784,565	\$ 6,627,202

See independent auditor's report.

COMMUNITY ROOTS HOUSING

**Schedule of Property Operations
For the Year Ended December 31, 2023**

	Berneva	Boylston Howell	Bremer	Broadway Crossing	Brewster	Broadway	Burke Gilman Gardens	Byron Wetmore	Centennial	CHDA Lake City LLLP	Central City Affordable Housing (412)	Devonshire
Receipts:												
Rents	\$ 127,168	\$ 352,596	\$ 590,008	\$ 545,145	\$ 354,820	\$ 73,493	\$ 226,613	\$ 149,737	\$ 391,051	\$ -	\$ 322,818	\$ 470,880
Vacancy	(1,080)	(6,398)	(36,984)	(33,157)	(13,432)	(7,415)	(11,983)	(17,837)	(17,532)		(33,604)	(42,589)
Tenant fees	316	16,251	510	23,302	4,508		1,863	725	8,572			16,090
Other income		1	370	11,567	260							
Total Receipts	126,404	362,450	553,905	546,857	346,156	66,078	216,493	132,625	382,091		289,214	444,381
Expenditures:												
On-site management expense	28,793	69,232	103,030	74,450	67,706	10,429	34,527	30,869	52,558		34,980	100,676
Utilities	20,204	58,585	54,901	82,944	71,258	4,863	14,087	35,522	43,995		44,958	71,665
Professional fees	10,191	22,359	32,715	33,211	26,036	7,317	12,093	14,245	14,975		13,558	26,179
Insurance	8,958	29,007	38,871	52,178	22,954	3,619	12,870	10,610	18,245		10,788	28,991
Property management fees	10,226	29,579	43,310	43,733	59,188	11,087	33,062	12,993	31,288		16,164	82,800
Repairs, maintenance and improvements	20,592	78,449	67,717	184,676	88,093	17,207	64,029	32,257	51,767		69,869	86,484
Debt service	8,459	37,681	156,995	42,977		8,100			112,851		64,930	700
Reserves	3,700	10,500	17,150	30,400	26,400	6,000	6,000	7,000	12,000		17,723	8,625
Other	7,497	18,622	51,495	48,859	32,445	6,206	21,424	8,571	27,807	15,302	7,518	28,313
Total Expenditures	118,620	354,014	566,184	593,428	394,079	74,828	198,093	152,067	365,487	15,302	280,487	434,433
Operating Income (Loss)	7,783	8,436	(12,280)	(46,571)	(47,923)	(8,750)	18,400	(19,443)	16,604	(15,302)	8,727	9,947
Reconciliation to Statement of Income:												
Depreciation and amortization	(24,627)	(298,397)	(557,989)	(334,708)	(93,113)	(9,064)	(74,272)	(11,802)	(57,773)		(22,754)	(48,048)
Reserves additions	3,700	10,500	17,150	30,400	26,400	6,000	6,000	7,000	12,000		17,723	8,625
Interest income - restricted	532	128	226	34	16,648	3,382	8,410	556	2,572		1,932	10,605
Interest and financial expenses	(5,235)	(15,144)	(106,411)	(68,372)		(3,222)			(39,973)		(9,967)	(10,668)
Other (expense) income	(6,960)	(30,826)	(50,843)	(17,261)	12,226		(9,745)	(8,742)	(44,226)		(28,156)	9,100
Fixed asset additions from operations												
Total expenses paid from reserves	(6,609)				(35,246)			(9,565)				12,562
Debt service payments	8,459	37,681	156,995	42,977		8,100			112,851		64,930	700
Management fees	10,226	29,579	43,310	43,733	59,188	11,087	33,062	12,993	31,288		16,164	82,800
Gain (loss) on disposal												3,107,421
Net (Loss) Income	\$ (12,730)	\$ (258,042)	\$ (509,842)	\$ (349,768)	\$ (61,821)	\$ 7,533	\$ (18,145)	\$ (29,002)	\$ 33,344	\$ (15,302)	\$ 48,598	\$ 3,183,045

See independent auditor's report.

COMMUNITY ROOTS HOUSING

**Schedule of Property Operations (Continued)
For the Year Ended December 31, 2023**

	Elizabeth James Senior Housing	Fleming LP	Fredonia	Fremont Solstice	Gilman Court LP	Harrison	Hazel Plaza	Helen V	Holden Vista	Jefferson & 12th Commercial	Joe Black	John Carney	Larned Apartments LP	Liberty Bank Commercial
Receipts:														
Rents	\$ 713,380	\$ 377,720	\$ 148,959	\$ 235,626	\$ 286,509	\$ 421,311	\$ 474,175	\$ 671,436	\$ 368,008	\$ 153,843	\$ 371,468	\$ 325,354	\$ 401,585	\$ 87,320
Vacancy	(37,303)	(19,077)	(75,596)		(2,670)	(9,804)	(39,116)	(37,892)	(47,048)		(42,749)	(12,088)	(15,520)	
Tenant fees	918	4,635	613	3,362	5,286	5,395	461	3,985	652		6,940	1,173	8,273	
Other income	99,798	14				3,183	8	47	2,323	153		2,327	1,200	20
Total Receipts	776,793	363,293	73,977	238,987	289,125	420,086	435,528	637,576	323,935	153,997	335,659	316,766	395,537	87,340
Expenditures:														
On-site management expense	138,831	80,073	3,565	53,922	100,002	47,494	69,122	115,376	43,225	838	61,826	98,921	78,113	3,035
Utilities	73,493	38,457	15,652	47,440	61,909	82,466	27,012	67,374	34,014	1,514	54,160	32,141	55,919	4,919
Professional fees	31,508	28,031	8,764	23,551	18,786	21,392	10,658	58,525	22,592	6,384	13,557	24,504	29,802	6,641
Insurance	44,153	18,799	5,425	14,412	24,345	21,305	10,998	23,170	12,205	3,291	16,322	19,119	20,981	3,046
Property management fees	36,000	45,791		25,063	28,637	24,679	35,575	71,465	17,208	6,501	55,441	21,385	37,763	3,084
Repairs, maintenance and improvements	239,966	111,618	15,459	31,510	73,016	75,731	59,700	90,638	104,932	2,632	75,125	47,098	114,314	4,147
Debt service	121,832	82,227	28,839	51,797		118,020	109,546	108,919			36,000	80,850		12,716
Reserves	38,946	13,300		7,200	13,000	21,044	59,262	26,196	6,960	18,600	4,320	24,450	24,320	20,000
Other	25,790	22,108	25,238	11,318	11,462	14,546	10,150	16,706	7,887	565	51,383	18,241	41,187	11,490
Total Expenditures	750,519	440,404	102,942	266,212	331,157	426,676	392,023	578,368	249,023	40,324	368,135	366,709	402,400	69,078
Operating Income (Loss)	26,274	(77,111)	(28,966)	(27,225)	(42,033)	(6,591)	43,506	59,209	74,912	113,673	(32,476)	(49,943)	(6,863)	18,262
Reconciliation to Statement of Income:														
Depreciation and amortization	(93,164)	(106,249)	(18,181)	(179,283)	(127,696)	(84,587)	(71,245)	(140,292)	(18,086)	(2,942)	(64,190)	(183,239)	(11,451)	(41,048)
Reserves additions	38,946	13,300		7,200	13,000	21,044	59,262	26,196	6,960	18,600	4,320	24,450	24,320	20,000
Interest income - restricted	155	11	2,005	660	944	3,235	2,190	181		232	3,480	699	3,430	
Interest and financial expenses	(49,620)	(24,389)	(12,880)	(56,676)		(57,805)	(71,466)	(75,952)	(3,646)		(14,088)	(49,991)		(4,237)
Other (expense) income	(7,492)	(24,361)	274	(11,457)	(6,860)	(60,470)	(10,574)	(38,952)	7,361	15,323	(8,456)	(11,187)	(5,805)	3,099
Fixed asset additions from operations								24,031						
Total expenses paid from reserves	(54,221)	(30,216)												
Debt service payments	121,832	82,227	28,839	51,797		118,020	109,546	108,919			36,000	80,850		12,716
Management fees	36,000	45,791		25,063	28,637	24,679	35,575	71,465	17,208	6,501	55,441	21,385	37,763	3,084
Gain (loss) on disposal			3,995,352											
Net Income (Loss)	\$ 18,710	\$(120,996)	\$3,966,443	\$ (189,920)	\$ (134,007)	\$ (42,476)	\$ 96,794	\$ 34,804	\$ 84,709	\$ 151,386	\$ (19,969)	\$(166,976)	\$ 41,394	\$ 11,875

See independent auditor's report.

COMMUNITY ROOTS HOUSING

**Schedule of Property Operations (Continued)
For the Year Ended December 31, 2023**

	Lincoln Court	Mary Ruth Manor	Maxwell	Melrose	Miller Park	Oleta	Pantages	Park Hill	Pride Place Commercial	Seneca	Silvian	South Annex Youth Care	Twelfth Ave Arts Associates	Union James	Villa Apts	Total
Receipts:																
Rents	\$ 317,218	\$ 578,009	\$ 48,834	\$ 283,560	\$ 169,460	\$ 368,359	\$ 571,374	\$ 495,744	\$ -	\$ 399,059	\$ 560,130	\$ 29,881	\$ 1,104,777	\$ 500,383	\$ 812,309	\$ 14,880,121
Vacancy	(33,849)	(127,189)	(250)	(36,600)	(14,709)	(43,758)	(17,679)	(62,480)		(21,912)	(39,569)			(23,374)	(45,177)	(1,027,420)
Tenant fees	4,337	745		286	3,511	4,549	37,709	3,648		3,444	543	1,077	1,500	2,048	28,282	205,507
Other income							13			10	249	277	2,490	56	37	124,404
Total Receipts	287,706	451,565	48,584	247,246	158,262	329,150	591,417	436,912		380,601	521,353	31,235	1,108,767	479,113	795,450	14,182,612
Expenditures:																
On-site management expense	60,779	90,584	8,081	51,585	37,187	65,331	110,794	101,387		55,913	60,672		12,021	68,569	109,027	2,333,524
Utilities	48,338	35,889	4,721	56,294	22,110	52,612	82,152	43,617		44,196	31,427	235	64,176	65,743	139,109	1,790,072
Professional fees	15,090	15,309	7,013	15,955	11,073	23,902	28,283	15,270		23,376	30,647	6,000	21,406	25,862	42,702	799,462
Insurance	18,463	18,529	3,036	15,584	9,785	18,085	43,314	27,474	6,805	24,254	26,663		49,911	17,468	49,936	803,969
Property management fees	12,600	19,545	5,005	35,172	15,290	18,070	54,151	76,328		34,254	18,025		44,353	14,188	39,771	1,168,776
Repairs, maintenance and improvements	52,940	52,248	9,136	89,809	38,786	100,829	112,370	48,550		93,386	238,015	4,239	90,445	85,054	187,918	3,010,749
Debt service	85,423	161,284	4,644	32,688	22,385	92,507	62,136	53,820	24,762	40,159	86,009		271,486	100,430	194,714	2,415,886
Reserves	17,400	31,205	1,440	3,600	10,461	13,957	28,389	10,000		10,342	496,004		444,368	10,924	48,228	1,549,414
Other	14,454	25,816	5,282	25,530	16,562	56,974	35,224	46,331		38,576	35,710	748	127,427	16,334	38,602	1,025,700
Total Expenditures	325,487	450,408	48,358	326,216	183,638	442,267	556,814	422,776	31,567	364,455	1,023,172	11,223	1,125,595	404,573	850,006	14,897,551
Operating (Loss) Income	(37,782)	1,157	226	(78,970)	(25,376)	(113,117)	34,602	14,136	(31,567)	16,146	(501,819)	20,012	(16,828)	74,540	(54,556)	(714,939)
Reconciliation to Statement of Income:																
Depreciation and amortization	(80,877)	(87,896)	(6,316)	(33,562)	(37,468)	(87,200)	(306,659)	(54,515)		(111,983)	(91,150)		(533,576)	(32,825)	(253,251)	(4,391,477)
Reserves additions	17,400	31,205	1,440	3,600	10,461	13,957	28,389	10,000		10,342	496,004		444,368	10,924	48,228	1,549,414
Interest income - restricted	21,545	2,078	2,349	4,529	11,146	1,281	26	6,682		34	629		2	1,705	1,247	115,500
Interest and financial expenses	(37,651)	(94,805)	(1,847)	(13,001)	(7,568)	(50,117)	(90,162)	(21,407)	(24,762)	(37,207)	(64,972)		(140,957)	(60,841)	(66,796)	(1,391,835)
Other income (expense)	(20,902)	(17,550)		(21,443)		9,470	(31,090)	(30,465)		4,427			300	(93,290)	(68,455)	(603,987)
Fixed asset additions from operations																24,031
Total expenses paid from reserves	(12,562)	(67,358)		(23,147)	(6,213)	(14,478)		(57,127)							(87,394)	(431,506)
Debt service payments	85,423	161,284	4,644	32,688	22,385	92,507	62,136	53,820	24,762	40,159	86,009		271,486	100,430	194,714	2,415,886
Management fees	12,600	19,545	5,005	35,172	15,290	18,070	54,151	76,328		34,254	18,025		44,353	14,188	39,771	1,168,776
Gain (loss) on disposal																7,102,773
Net (Loss) Income	\$ (52,806)	\$ (52,340)	\$ 5,501	\$ (94,135)	\$ (17,344)	\$ (129,626)	\$ (248,606)	\$ (2,547)	\$ (31,567)	\$ (43,829)	\$ (57,274)	\$ 20,012	\$ 69,149	\$ (72,562)	\$ (199,032)	\$ 4,842,636

See independent auditor's report.

COMMUNITY ROOTS HOUSING

**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2023**

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	\$ -	\$ 204,637
Section 8 Housing Assistance Payments Program	14.195	WA19L000022		368,009
Section 8 Housing Assistance Payments Program	14.195	WA19L0000040		497,661
Section 8 Housing Assistance Payments Program	14.195	WA190080005		347,508
Section 8 Housing Assistance Payments Program	14.195	WA19L000027		364,686
Section 8 Housing Assistance Payments Program	14.195	WA19M000202		265,193
State of Washington:				
Section 8 Housing Assistance Payments Program	14.195	Unknown		92,102
Section 8 Housing Assistance Payments Program	14.195	15-46221-004		52,971
Total 14.195 and Section 8 Project-Based Cluster				2,192,767
City of Seattle:				
Community Development Block Grants/Entitlement Grants-				
CDBG - Fredonia Apartments*	14.218	Unknown		409,760
CDBG - Gale Place Apartments*	14.218	Unknown		286,400
CDBG - Lincoln Court Apartments*	14.218	Unknown		1,203,904
CDBG - Park Hill*	14.218	Unknown		282,303
CDBG - Helen V*	14.218	Unknown		735,560
CDBG - Union James*	14.218	Unknown		397,635
CDBG - Silvian Apartments*	14.218	Unknown		830,000
Total 14.218 and CDGB-Entitlement Grants Cluster				4,145,562
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 -				
Helen V Apartments*	14.239	Unknown		492,272
Home Investment Partnerships Program -				
Broadway Pine Apartments*	14.239	Unknown		1,800,000
State of Washington:				
HOME Investment Partnerships Program -				
Lincoln Court Apartments*	14.239	04-40403-004		1,000,000
Total 14.239				3,292,272
Total US Department of Housing and Urban Development				10,232,689
US Treasury:				
City of Seattle-				
COVID-19 Seattle Housing Capacity Building and Services	21.027	CLFR-CRH		69,326
Total 21.027 and US Treasury				69,326
Total Federal Expenditures			\$ -	\$ 10,302,015

* 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, 2023

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, 2023. 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 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, 2023.

Note 3 - Loans Outstanding

CRH had the following loan balances outstanding at December 31, 2023. 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	\$ 3,735,802
Rental Rehabilitation Program	14.230	602,088
HOME Investment Partnerships Program	14.239	3,292,272

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 (*Government Auditing Standards*), the financial statements of the business-type activities and the aggregate discretely presented component units of Community Roots Housing (CRH), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise CRH's basic financial statements, and have issued our report thereon dated May 28, 2024.

Report on 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 or significant deficiencies may exist that were not identified.



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Report on 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.

Clark Nuber P.S.

Certified Public Accountants
May 28, 2024

**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

Opinion on Each Major Federal Program

We have Community Roots Housing's (CRH's) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of CRH's major federal programs for the year ended December 31, 2023. CRH's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, CRH complied, in all material respects, with the 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, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of CRH and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of CRH's compliance with the compliance requirements referred to above.

Other Matter - Federal Expenditures Not Included in the Compliance Audit

CRH's basic financial statements include the operations of the Elizabeth James Senior Housing, a blended component unit of CRH, which expended \$1,656,530 in federal awards which is not included in CRH's schedule of expenditures of federal awards during the year ended December 31, 2023. Our compliance audit, described in the Opinion on Each Major Federal Program section of our report, does not include the operations of Elizabeth James Senior Housing because Elizabeth James Senior Housing is subject to U.S. Department of Housing and Urban Development (HUD) reporting requirements and was audited as a legally separate entity as permitted by 2 CFR 200.514(a) and HUD.



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Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to CRH's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on CRH's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about CRH's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding CRH's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of CRH's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 CRH's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

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 a 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-001 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on CRH's response to the internal control over compliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs. CRH's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Clark Nuber P.S.

Certified Public Accountants
May 28, 2024

COMMUNITY ROOTS HOUSING

**Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2023**

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

<u>Federal Assistance Numbers</u>	<u>Name of Federal Program or Cluster</u>
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?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

COMMUNITY ROOTS HOUSING

Schedule of Findings and Questioned Costs For the Year Ended December 31, 2023

Section II - Financial Statement Findings

No matters were reported.

Section III - Findings and Questioned Costs for Federal Awards

Finding 2023-001

Significant deficiency in internal control over compliance related to special tests and provisions.

Federal Agency: U.S. Department of Housing and Urban Development
Program Title: Section 8 Project-Based Cluster
Assistance Listing Number: 14.195
Pass-through Grantor: Housing Authority of the City of Bremerton
Project Number: WA19L000022
Award Period: 2023

Federal Agency: U.S. Department of Housing and Urban Development
Program Title: Section 8 Project-Based Cluster
Pass-Through Grantor: State of Washington
Assistance Listing Number: 14.195
Project Number: 15-46221-004
Award Period: 2023

Criteria

Under the requirements of the 24 Code of Federal Regulations (CFR) Part 982, property owners must perform housing quality inspections at the time of initial occupancy and at least annually thereafter to ensure that the units are decent, safe, and sanitary.

Condition/Context for Evaluation

Out of 12 units selected for testing, 2 units did not have documentation supporting that a housing quality standards inspection was completed during 2023.

Effect or Potential Effect

CRH did not comply with 24 CFR section 982.404 and 982.405, which requires units to be inspected to ensure they meet Housing Quality Standards.

Questioned Costs

Not applicable.

Cause

Internal controls were not operating effectively to ensure that all unit inspections were performed and documented.

Repeat Finding

No

COMMUNITY ROOTS HOUSING

**Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2023**

Section III - Federal Award Findings and Questioned Costs (Continued)

Finding 2023-001 (Continued)

Recommendation

We recommend that the Organization implement the necessary internal controls to ensure annual inspections are performed and documented.

Views of Responsible Officials

Management agrees with the finding and has provided the accompanying corrective action plan.



COMMUNITY ROOTS HOUSING

Management Corrective Action Plan For the Year Ended December 31, 2023

Community Roots Housing

US Department of Homeland Security auditee identification number: PMDC-PJ-10-WA-2018-010

Audit Firm: Clark Nuber PS

Audit Period: Year ended December 31, 2023

Finding 2023-001 – Significant deficiency in internal controls over compliance related to special tests and provisions.

Requirement: Per the requirements contained in 24 CFR Part 982, property owners must perform housing quality inspections at the time of initial occupancy and at least annually thereafter to ensure that the units are decent, safe, and sanitary.

Finding: Out of 12 units selected for testing, 2 units did not have documentation supporting that a housing quality standards inspection was completed during 2023.

Recommendation: CRH should implement the necessary internal controls to ensure annual inspections are performed and documented.

Comments

Community Roots Housing agrees with this finding and recommendation.

Corrective Action Plan

Community Roots Housing maintains detailed listings of annual inspection work orders, including unit numbers and when they were finished. This listing is prepared by the maintenance department. An additional control will be added to include secondary review and oversight by the Director of Property Management. This review will occur quarterly, starting in the with the second quarter of 2024, to ensure that all inspections are completed before the end of 2024, and annually thereafter. The Director of Maintenance and the Director of Property Management will be responsible for ensuring these tasks are carried out.

Corrective Action Plan prepared by: Leslie Woodworth, Chief Financial Officer, 206-895-2030