

IMAGINE HOUSING AND AFFILIATES
CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)



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**IMAGINE HOUSING AND AFFILIATES
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Imagine Housing and Affiliates
Kirkland, Washington

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Imagine Housing (a Washington nonprofit organization) and Affiliates, which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

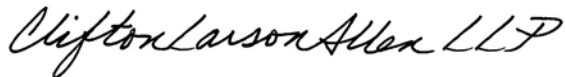
Board of Directors
Imagine Housing and Affiliates

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Imagine Housing and Affiliates as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Imagine Housing and Affiliates' 2018 consolidated financial statements, and our report dated June 17, 2019, expressed an unmodified opinion on those consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



CliftonLarsonAllen LLP

Bellevue, Washington
August 25, 2020

IMAGINE HOUSING AND AFFILIATES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

ASSETS	2019	2018
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,555,110	\$ 1,999,455
Security Deposits	107,026	112,402
Tenant and Subsidy Receivables	60,431	73,519
Grants and Contributions Receivable	592,545	159,557
Beneficial Interest in Lead Trust	7,500	7,500
Due from Limited Partnerships and Limited Liability Companies	605,470	416,165
Prepaid Expenses and Deposits	135,603	131,914
Total Current Assets	4,063,685	2,900,512
OTHER ASSETS		
Board-Designated Reserves	3,422,137	1,696,419
Restricted Deposits	1,272,764	946,612
Construction Cash	26,191	26,171
Investment in Limited Partnerships and Limited Liability Companies	300,003	424,761
Grants and Contributions Receivable	-	2,777
Beneficial Interest in Lead Trust	76,344	83,131
Due from Limited Partnerships and Limited Liability Companies	688,210	703,683
Construction in Progress	113,345	1,208,699
Capitalized Costs, Net	72,225	75,558
Intangible Assets	30,000	30,000
Total Other Assets	6,001,219	5,197,811
BUILDINGS AND EQUIPMENT		
Land	16,513,802	15,978,904
Land Improvements	586,995	583,087
Buildings	26,892,667	24,285,708
Furnishings and Equipment	943,777	735,232
Leasehold Improvements	16,204	6,992
Less: Accumulated Depreciation	(11,594,209)	(9,357,478)
Less: Contra-Property Account	(266,503)	(275,992)
Total Buildings and Equipment	33,092,733	31,956,453
Total Assets	\$ 43,157,637	\$ 40,054,776

See accompanying Notes to Consolidated Financial Statements.

IMAGINE HOUSING AND AFFILIATES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

	2019	2018
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued Expenses	\$ 192,853	\$ 253,894
Construction Costs Payable	17,800	328,349
Refundable Advance	47,028	36,720
Due to Limited Partnerships and Limited Liability Companies	39,098	18,704
Tenant Deposits and Prepaid Rent	173,808	170,163
Accrued Interest Payable	50,947	54,339
Current Portion of Long-Term Debt	292,248	268,861
Total Current Liabilities	813,782	1,131,030
LONG-TERM DEBT		
Notes Payable, Net of Unamortized Debt Issuance Costs	20,632,600	18,603,641
Forgivable Debt	1,110,137	1,258,368
Total Long-Term Debt	21,742,737	19,862,009
Total Liabilities	22,556,519	20,993,039
NET ASSETS		
Net Assets Without Donor Restrictions:		
Undesignated	16,478,776	16,608,126
Board-designated	3,422,137	1,696,419
Total Net Assets Without Donor Restrictions	19,900,913	18,304,545
Net Assets With Donor Restrictions	700,205	757,192
Total Net Assets	20,601,118	19,061,737
Total Liabilities and Net Assets	\$ 43,157,637	\$ 40,054,776

See accompanying Notes to Consolidated Financial Statements.

IMAGINE HOUSING AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total 2019	Total 2018
SUPPORT AND REVENUE				
Special Event Revenue (Not Including \$455,347 and \$466,998, Respectively, of Contributions Reported Below)	\$ 101,802	\$ -	\$ 101,802	\$ 67,201
Less: Cost of Direct Benefits to Donors	(80,897)	-	(80,897)	(61,290)
Total	20,905	-	20,905	5,911
Government Grants	482,392	-	482,392	662,376
Contributions	1,548,557	238,386	1,786,943	834,317
Rental Income, Net	3,318,473	-	3,318,473	2,994,785
Management Fees	386,572	-	386,572	344,811
Development Fees	1,292,598	-	1,292,598	-
Laundry and Miscellaneous Tenant Fees	31,737	-	31,737	29,582
Interest Income	22,456	-	22,456	15,272
Gain (Loss) on Investments in Limited Partnerships and Limited Liability Companies	(213)	-	(213)	(141)
Gain on Release of Loan Obligation	148,231	-	148,231	-
Other	41,677	-	41,677	16,540
Gain on Disposal of Fixed Assets, Net	101,115	-	101,115	-
Net Assets Released from Restriction	290,392	(290,392)	-	-
Total Support and Revenue	7,684,892	(52,006)	7,632,886	4,903,453
EXPENSES				
Program Services:				
Asset Management	3,471,285	-	3,471,285	3,045,751
Housing Development	541,047	-	541,047	501,610
Supportive Services	814,076	-	814,076	645,120
Administration	536,640	-	536,640	461,114
Fund Development	731,123	-	731,123	604,732
Total Expenses	6,094,171	-	6,094,171	5,258,327
EXCESS (DEFICIENCY) OF OPERATING SUPPORT OVER (UNDER) EXPENSES	1,590,721	(52,006)	1,538,715	(354,874)
OTHER INCOME (EXPENSE)				
Capital Grants and Contributions	666	-	666	103,262
Net Assets Released from Restriction	4,981	(4,981)	-	-
Total Other Income (Expense)	5,647	(4,981)	666	103,262
CHANGE IN NET ASSETS	1,596,368	(56,987)	1,539,381	(251,612)
Net Assets - Beginning of Year	18,304,545	757,192	19,061,737	19,313,349
NET ASSETS - END OF YEAR	\$ 19,900,913	\$ 700,205	\$ 20,601,118	\$ 19,061,737

See accompanying Notes to Consolidated Financial Statements.

IMAGINE HOUSING AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

	Asset Management	Housing Development	Supportive Services	Total Program	Administration	Fund Development	Total 2019	Total 2018
Salaries and Wages	\$ 219,571	\$ 349,130	\$ 449,663	\$ 1,018,364	\$ 343,401	\$ 369,370	\$ 1,731,135	\$ 1,511,825
Building Staff	312,226	-	-	312,226	-	-	312,226	272,007
Payroll Taxes and Benefits	99,336	68,009	130,384	297,729	79,341	82,316	459,386	454,277
Advertising	2,230	269	-	2,499	-	1,970	4,469	1,958
Bad Debt	33,271	-	-	33,271	-	3,222	36,493	20,372
Building Supplies	351,494	-	-	351,494	-	-	351,494	145,094
Insurance	103,466	3,186	6,383	113,035	3,798	3,694	120,527	94,719
Interest	233,344	-	-	233,344	-	23,021	256,365	218,305
Interest - Amortization of Debt								
Issuance Costs	12,814	-	-	12,814	-	-	12,814	10,721
Travel	1,594	3,000	4,955	9,549	722	1,441	11,712	15,818
Office Supplies and Services	94,960	22,496	95,070	212,526	18,614	65,097	296,237	246,853
Miscellaneous Expenses	330	-	-	330	23,509	55,000	78,839	604
Taxes and Fees	11,387	18,517	6,325	36,229	201	19,766	56,196	36,441
Tenant Screening and Services	941	-	-	941	-	-	941	2,926
Tenant Relations	1,464	-	-	1,464	-	-	1,464	909
Training	7,241	11,731	7,401	26,373	22,058	11,221	59,652	47,121
Professional Services	101,523	24,332	23,931	149,786	21,822	63,004	234,612	197,077
Case Management Services	-	-	82,240	82,240	-	-	82,240	82,596
Property Management Fees	129,629	-	-	129,629	-	-	129,629	122,978
Property Taxes	63,245	-	-	63,245	-	-	63,245	61,297
Rent	14,345	33,104	7,724	55,173	23,174	32,001	110,348	94,097
Repairs and Maintenance	288,066	-	-	288,066	-	-	288,066	230,842
Rental Assistance	37,951	-	-	37,951	-	-	37,951	76,904
Utilities	516,143	-	-	516,143	-	-	516,143	502,319
Development Expense	-	7,273	-	7,273	-	-	7,273	14,793
Grant Refund Expense	-	-	-	-	-	-	-	40,000
Amortization	3,333	-	-	3,333	-	-	3,333	3,333
Depreciation	831,381	-	-	831,381	-	-	831,381	752,141
Total Expenses	\$ 3,471,285	\$ 541,047	\$ 814,076	\$ 4,826,408	\$ 536,640	\$ 731,123	\$ 6,094,171	\$ 5,258,327

See accompanying Notes to Consolidated Financial Statements.

IMAGINE HOUSING AND AFFILIATES
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	\$ 1,539,381	\$ (251,612)
Adjustments:		
Depreciation and Amortization	834,714	755,474
Loss (Gain) on Investments	213	141
Other Income - Amortization of Contra-Property Account	(9,489)	(9,489)
Interest - Amortization of Debt Issuance Costs	12,814	10,721
Loss on Disposal of Assets	1,347	-
Gain on Forgiveness of Debt	(148,231)	-
Gain on Investment in Limited Liability Company	(7,227)	-
Deferred interest	10,043	-
(Increase) Decrease in Operating Assets:		
Tenant and Subsidy Receivables	36,822	(49,077)
Grants and Contributions Receivable	(432,988)	(6,077)
Due from Limited Partnerships and Limited Liability Companies	(78,871)	(43,099)
Beneficial Interest in Lead Trust	6,787	6,958
Prepaid Expenses and Deposits	(571)	(40,112)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(76,568)	3,354
Refundable Advance	10,308	28,994
Due to Limited Partnerships and Limited Liability Companies	20,394	(133)
Tenant Deposits and Prepaid Rent	(7,718)	55,831
Accrued Interest Payable	(5,701)	3,176
Net Cash Provided by Operating Activities	1,705,459	465,050
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Building, Furnishings, Equipment, and Vehicles	(186,105)	(32,930)
Construction in Progress	(73,939)	(809,723)
Proceeds from Esterra Park	1,187,093	-
Acquisition of Chalet	373,529	-
Deferred Developer Fee and Notes Receivable - Related Party	(97,795)	576,270
Investment in Partnerships and Limited Liability Companies, Net	(35,200)	-
Net Cash Provided (Used) by Investing Activities	1,167,583	(266,383)

See accompanying Notes to Consolidated Financial Statements.

IMAGINE HOUSING AND AFFILIATES
CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

	2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES		
Grants and Contributions Restricted for Long-Term Purposes	\$ 2,777	\$ 8,490
Construction Costs Payable	(328,349)	(20,748)
Payments on Long-Term Debt	(305,510)	(234,603)
Proceeds from Long-Term Debt	360,209	613,631
Net Cash Provided (Used) by Financing Activities	(270,873)	366,770
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,602,169	565,437
Cash and Cash Equivalents - Beginning of Year	4,781,059	4,215,622
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 7,383,228	\$ 4,781,059
RECONCILIATION OF CASH AND RESTRICTED CASH - END OF YEAR PER THE CASH FLOW STATEMENT TO CASH AND RESTRICTED CASH PER THE BALANCE SHEET		
Cash and Cash Equivalents	\$ 2,555,110	\$ 1,999,455
Security Deposits	107,026	112,402
Board Designated Reserves	3,422,137	1,696,419
Restricted Deposits	1,272,764	946,612
Construction Cash	26,191	26,171
Cash and Cash Equivalents per Statement of Cash Flows	\$ 7,383,228	\$ 4,781,059

See accompanying Notes to Consolidated Financial Statements.

IMAGINE HOUSING AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

NOTE 1 NATURE OF ORGANIZATION

Organization

Imagine Housing and Affiliates (the Organization), formerly St. Andrew's Housing Group and Affiliates, is a Washington 501(c)(3) nonprofit corporation formed in 1987 to provide and support low-income housing. The name of the organization was changed and filed with the Secretary of State for the State of Washington on April 26, 2011. A volunteer board of up to 25 members governs the Organization.

The Organization develops, owns, maintains, and manages residential property, which provides low-income housing and other related supportive services. At December 31, 2019, it managed 15 residential apartment buildings, having ownership of eight and partial ownership of seven others through limited partnerships and limited liability companies. These buildings provide 639 units of low-income housing in Bellevue, Kirkland, Mercer Island, Redmond, and Issaquah, Washington.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

These financial statements consolidate the statements of Imagine Housing, Imagine Housing Communities (formerly Red Vines 1), Ruby LLC, Roots I LLC, Imagine Gardens LLC, Chalet Apartments Holdings LLC, Athene Manager LLC, RV Manager LLC, 30Bellevue Manager LLC, South KTOD Development LLC, Block 6B 9% Manager LLC, and Block 6B 4% Manager LLC. The limited liability companies consolidated in these statements are either single member limited liability corporations or otherwise controlled by Imagine Housing or Imagine Housing Communities. Imagine Housing Communities is a 501(c)(3) nonprofit Community Housing Development Organization. Imagine Housing has effective control over Imagine Housing Communities; two-thirds of the members of the board of Imagine Housing Communities are also members of the board of Imagine Housing, and Imagine Housing has approval authority over appointment of all Imagine Housing Communities board members. Inter-organization and affiliated organization accounts and transactions have been eliminated in the consolidation.

Effective January 1, 2019, the investor member exited Chalet Apartments LLC. Imagine Housing assumed total control of the assets and responsibility for the liabilities of Chalet Apartments LLC and transferred its interest to Chalet Apartments Holdings LLC, a single-member LLC controlled by Imagine Housing.

IMAGINE HOUSING AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of Consolidation (Continued)

On November 12, 2019, Imagine Housing, Block 6B 4% Manager LLC, and Block 6B 9% Manager LLC entered into an agreement with Inland Construction & Development Co. and its related managing member entities to collaborate in the development of an affordable multifamily residential community located in Redmond, WA. Block 6B 4% Manager LLC and Block 6B 9% Manager LLC are nonmanaging founding members each holding a 0.0039% interest in the project. In consideration of Imagine Housing's past efforts, foregoing recitals, and for other good and valuable consideration, Imagine Housing received reimbursement for development expenses totaling \$1,435,535 and a closing fee of \$500,000 plus other ongoing economic benefits as a member of the ownership entities as described in the agreement.

The Organization has investments in various partnerships and companies which are accounted for by the equity method (see Note 9).

Basis of Financial Presentation

In accordance with generally accepted accounting principles, the Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

New Accounting Pronouncements

For the year ended December 31, 2019 the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230) Restricted Cash*. This ASU was issued to clarify guidance on the classification and presentation of restricted cash in the statement of cash flows and reduce diversity in practice. The amendments to this ASU require that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and restricted cash or restricted cash equivalents. Therefore, restricted cash and restricted cash equivalents are included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The financial statements reflect the application of ASU 2016-18 using a retrospective approach to each period presented.

IMAGINE HOUSING AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements (Continued)

For the year ended December 31, 2019, the Organization adopted FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Subsequent to May 2014, the FASB issued six ASUs to clarify certain matters related to Topic 606. Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The updates address the complexity of revenue recognition and provide sufficient information to enable financial statements users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Organization's financial statements reflect the application of ASC 606 guidance beginning in 2018. No cumulative-effect adjustments in net assets was recorded because the adoption of ASU 2014-09 did not significantly impact the Organization's reported historical revenue. The Organization's main impacted by Topic 606 is developer fee revenue.

In June 2018, FASB issued ASU 2018-08 related to the accounting for contributions received and contributions made. This update applies to both resource recipients and resource providers and assists in evaluating whether a transfer of assets is an exchange transaction or a contribution and also assists with distinguishing between conditional and unconditional contributions. Distinguishing between contributions and exchange transactions determines which guidance should be applied. For contributions, the guidance in Subtopic 958-605 should be followed, and for exchange transactions, Topic 606 should be followed. The ASU is effective for the Organization for the year ended December 31, 2019. The Organization's consolidated financial statements reflect the application of ASU 2018-08 guidance beginning in 2019. No cumulative-effect adjustments in net assets was recorded because the adoption of ASU 2018-08 did not significantly impact the Organization's reported historical revenue.

Restricted and Unrestricted Revenue and Support

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, restricted net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

The governing board has designated, from net assets without donor restrictions, net assets for operating and capital reserves.

IMAGINE HOUSING AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and Revenue Recognition

Revenue is recognized as the performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on the services period of the contract. The Organization measures the performance obligation from these particular services from the beginning of the performance period to the completion of services provided. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and the Organization does not believe they are required to provide additional goods or services to the client.

The Organization has performance obligations that are satisfied at a point in time as well as over a time period. Developer fees are recognized as the services are being performed in proportion to the percentage of construction completed and/ or as the performance obligations are being satisfied based on the specific contract terms.

The Organization recognizes contributions when cash, securities or other assets, or an unconditional promise to give is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

A portion of the Organization's revenue is derived from cost-reimbursable contracts and grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the statement of financial position. The Organization received cost-reimbursable grants of \$581,068 that have not been recognized at December 31, 2019 because qualifying expenditures have not yet been incurred

Functional Expenses

Functional expenses are allocated directly to departments, as applicable. Indirect costs are allocated across programs, administration, and fund development based on the number of payroll hours worked by staff at the Organization's main office and include insurance, office supplies, office equipment, software, telephone, miscellaneous administrative costs, taxes, audit, contract labor and rent.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Organization considers all highly liquid debt instruments with current maturities of three months or less to be cash equivalents.

IMAGINE HOUSING AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables and Allowance for Doubtful Accounts

Tenant, subsidy, and grants receivables are presented in the statement of financial position net of estimated uncollectible amounts. The Organization records an allowance for estimated uncollectible accounts in an amount approximating anticipated losses. Individual uncollectible accounts are written off against the allowance when collection of the individual accounts appears doubtful. Tenant and subsidy receivables of \$60,431 and \$73,519 were due to the Organization at December 31, 2019 and 2018, respectively. No allowance for doubtful accounts was considered necessary at December 31, 2019 or 2018.

Fixed Assets and Depreciation

Land, land improvements, buildings, furnishings, and equipment are recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. Interest costs incurred during the construction period are capitalized and added to the cost of the building. Depreciation has been computed on the straight-line basis for furnishings and equipment over three to seven years, for vehicles and leasehold improvements over five years, for land improvements over 15 years, and for buildings and improvements over 15 to 40 years.

The Organization reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. No impairment losses were recognized in 2019 or 2018.

Debt Issuance Costs

Debt issuance costs are reported on the balance sheets as a direct deduction from the face of the mortgages payable (see Note 6) and are amortized over the term of the mortgage using the straight-line method. Accounting principles generally accepted in the United States of America require 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 debt issuance costs is included in interest expense in the statements of operations.

Capitalized Costs and Amortization

Capitalized costs consist of tax credit fees which are amortized over a 30-year period using the straight-line method. Accumulated amortization was \$27,775 and \$24,442 at December 31, 2019 and 2018, respectively.

Donated Property, Equipment, and Services

Donations of property and equipment are recorded as an increase in net assets without donor restrictions at their estimated fair value at the date of donation.

IMAGINE HOUSING AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contra-Property Account

Development fees earned by one entity in service to another consolidated entity are eliminated against current year applicable expenses. Any remainder is due to differences in timing and the difference between total expenses and total revenue of the applicable project over the development period. The Organization recognizes the remainder through a contra account to fixed assets, which is amortized on a straight-line basis over the life of the related assets. At December 31, 2019 and 2018, accumulated amortization of the contra-property account was \$72,982 and \$63,493, respectively.

Intangible Assets

Intangible assets consist of transfer of development rights owned by the Organization. These assets have an indefinite life and are nonamortizing.

Tax-Exempt Status

Imagine Housing and Imagine Housing Communities are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. They have been classified as organizations that are not private foundations within the meaning of Section 509(a) because they are organizations of the type described in Section 509(a)(2).

Imagine Housing is the sole member of Ruby LLC, Roots I LLC, South KTOD Development LLC, Imagine Gardens LLC and Chalet Holdings LLC. Imagine Housing Communities is the sole member of Athene Manager LLC, RV Manager LLC, 30Bellevue Manager LLC, Block 6B 9% Manager LLC and Block 6B 4% Manager LLC. All LLC's listed are single member LLC's and are disregarded entities for tax purposes.

The Organization's income tax filings are subject to examination by various taxing authorities.

The Organization has evaluated its tax positions and concluded that it has taken not uncertain tax positions that would require adjustment to the financial statements. In addition, the Organization is not aware of any matters that would cause the loss of its tax-exempt status.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2018, from which the summarized information was derived.

IMAGINE HOUSING AND AFFILIATES
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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in the Preparation of Financial Statements

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 that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

Certain amounts from the prior-year financial statements have been reclassified to conform to the current-year presentation.

NOTE 3 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure within one year of the balance sheet date without donor or other restrictions limiting their use are as follows:

Cash and Cash Equivalents	\$ 2,555,110
Tenant and Subsidy Receivables	60,431
Current Grants and Contributions Receivable	592,545
Distributions from Beneficial Interest in Lead Trust	7,500
Due from Limited Partnerships and Limited Liability Companies	<u>605,470</u>
Total	<u>\$ 3,821,056</u>

As further explanation, each property operates self-sufficiently and budgets anticipate that rent revenue will cover related property operating expenditures. Of the financial assets listed above, \$862,638 is associated with eight properties owned by Imagine Housing or Imagine Housing Communities. Properties also have lender and/or board-designated replacement and operating reserves that can be made available for capital repairs and operating deficits as described in Note 16. Liquid assets which are available for general operations of Imagine Housing and Imagine Housing Communities total \$2,958,418.

Additionally, the Board has established an operating reserve of three months of operating expenses, or \$862,604 at December 31, 2019, which can be made available if necessary. Imagine Housing has also raised \$498,651 of board-designated donations in a revolving fund and, as of December 31, 2019, \$1,000,000 of social impact investments for future project feasibility, predevelopment and construction in order to achieve the Organization's goal of having 1,000 units of affordable housing in its portfolio by 2022. In addition, at December 31, 2019, the Organization had an unused line of credit of \$4,500,000.

IMAGINE HOUSING AND AFFILIATES
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NOTE 4 BENEFICIAL INTEREST IN LEAD TRUST

During 2015, a donor established a trust with an independent broker naming Imagine Housing as the lead beneficiary of a charitable lead annuity trust. Under terms of the split-interest agreement, the Organization is to receive \$7,500 annually for 20-years for its unrestricted use. Upon termination, the Trust will be distributed to the individual remainder beneficiaries. Using a 2.38 percent discount rate, the present value of future benefits expected to be received by the Organization was estimated to be \$83,844 and \$90,631, which was reported in 2019 and 2018, respectively, as an increase in net assets with donor restrictions and a contribution receivable from charitable lead trust. The Organization received \$7,500 from the trust in December 31, 2019 and 2018, which was recorded as a reduction in the receivable and a corresponding reclassification from net assets with donor restrictions to net assets without donor restrictions. The Organization also recorded amortization of the discount on the estimated present value of future benefits of \$713 and \$542 in 2019 and 2018, respectively.

NOTE 5 LEASE COMMITMENTS

Land Lease

The Organization entered into a lease/lease back arrangement with King County Housing Opportunity Fund for the property associated with Andrew's Heights. The Organization received \$335,000 for a 35-year lease, which expires on October 3, 2029.

The Organization leased back the property for a term of 35 years ending August 31, 2029. In lieu of lease payments, the Organization must improve the property and perform services outlined in the agreement, consisting primarily of operating the premise as permanent housing for low-income individuals.

Operating Lease

The Organization entered into a five-year operating lease on December 1, 2010, for office space in Kirkland, Washington. The lease expired on November 30, 2015 and was extended for an additional five-year term expiring November 30, 2020. The Organization also entered into a month-to-month lease for storage space located in the garage of the building. Rental expenses under these leases for December 31, 2019 and 2018 were \$110,348 and \$94,097, respectively.

Future minimum payments due in 2020 is \$92,752.

IMAGINE HOUSING AND AFFILIATES
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NOTE 6 LONG-TERM DEBT

The following is a summary of the Organization's long-term debt outstanding at December 31:

<u>Description</u>	<u>2019</u>	<u>2018</u>
<u>Andrew's Heights</u>		
Note payable to city of Bellevue, no interest, payments only to the extent there is residual cash flow as defined in the agreement, principal forgiven at maturity, June 1, 2045, provided the Organization complies with all loan requirements	\$ 165,137	\$ 165,137
Note payable to King County, no interest, principal forgiven at maturity, September 20, 2034, provided the Organization complies with all loan requirements	445,000	445,000
Note payable to state of Washington, interest at 1%, annual payments of \$33,256 until maturity, December 31, 2055	1,005,367	1,028,340
Andrew's Height's loans are secured by land and building with a carrying value at December 31, 2019 of \$308,727 and \$1,351,593, respectively		
<u>Terrace Hill Apartments</u>		
Note payable to Washington Community Reinvestment Association, interest at 7.375%, monthly payments of \$2,072 until maturity, July 1, 2029	170,490	182,303
Note payable to King County, no interest, principal due at maturity, April 30, 2049	526,635	526,635
Note payable to state of Washington, interest at 1%, quarterly payments of \$3,199 until maturity, October 30, 2049	328,934	340,729
Note payable to King County, interest at 1% beginning in 2005, annual payments of \$9,680 subject to available cash flow until maturity, April 30, 2049	350,647	350,647
Note payable to City of Redmond, interest at 1% beginning in 2004, annual payments of \$1,838 beginning in 2005 subject to available cash flow until maturity, April 30, 2049; if insufficient cash flow, payments may be deferred and interest for that year forgiven	63,992	66,353

IMAGINE HOUSING AND AFFILIATES
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NOTE 6 LONG-TERM DEBT (CONTINUED)

<u>Description</u>	<u>2019</u>	<u>2018</u>
Note payable to city of Bellevue, interest at 1% beginning in 2004, annual payments of \$693 beginning in 2005, subject to project cash flow until maturity, April 30, 2049; if insufficient cash flow, payment may be deferred and interest for that year forgiven	\$ 24,110	\$ 25,000
Note payable to state of Washington, no interest, principal forgiven at maturity, October 30, 2049, provided Organization complies with all loan requirements	500,000	500,000
Terrace Hill Apartments' loans are secured by land and building with a carrying value at December 31, 2019, of \$226,319 and \$1,022,312, respectively		
<u>Kirkland Plaza</u>		
Note payable to bank, interest at 6.75%, monthly payments of \$2,906 until maturity, January 1, 2029	236,310	254,557
Note payable to city of Bellevue, simple interest at 1%, annual payment of \$15,203 subject to project net cash flow, principal due at maturity, June 1, 2049	325,236	325,236
Kirkland Plaza Note payable to city of Kirkland, simple interest at 1%, annual payments of \$7,130 subject to project net cash flow, principal due at maturity, June 1, 2049	152,283	152,283
Note payable to city of Redmond, simple interest at 1%, annual payment of \$1,304 subject to project net cash flow, principal due at maturity, June 1, 2049	27,844	27,844
Note payable to King County, no interest, annual payment of \$14,818 subject to project net cash flow until maturity, June 1, 2034	493,366	493,366
Note payable to state of Washington, interest at 1%, annual payments of \$8,116 until maturity, October 31, 2048	203,446	215,430
Kirkland Plaza's loans are secured by land and building with a carrying value at December 31, 2019, of \$593,208 and \$738,670, respectively		

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NOTE 6 LONG-TERM DEBT (CONTINUED)

<u>Description</u>	<u>2019</u>	<u>2018</u>
<u>Grace Place (Formerly Ellsworth House)</u>		
Note payable to bank, interest at 5.75%, monthly payments of \$15,902 until maturity, October 8, 2029	\$ 1,439,697	\$ 1,544,451
Note payable to bank, interest at 5.1565%, monthly payments of \$3,406 until maturity, October 8, 2029	314,604	338,541
Note payable to Washington State Housing Trust Fund, interest at 1%, annual payments of \$25,513 until maturity, October 30, 2049	658,419	677,161
Note payable to King County Department of Community and Human Services, no interest, principal due at maturity, September 1, 2049	297,793	297,793
<u>Grace Place (Formerly Ellsworth House), Continued</u>		
Note payable to King County Department of Community and Human Services, no interest, principal due at maturity, September 1, 2050	417,549	417,549
Note payable to city of Bellevue, interest at 1%, annual payments of \$11,481 subject to project cash flow until maturity, June 1, 2050; if insufficient cash flow, payment may be deferred and interest for that year forgiven	437,847	437,847
Note payable to city of Bellevue, interest at 1%, annual payments of \$11,481 subject to project cash flow until maturity, June 1, 2050; if insufficient cash flow, payment may be deferred and interest for that year forgiven	160,544	160,544
Note payable to city of Redmond, interest at 1%, annual payments of \$2,551 subject to project cash flow until maturity, June 1, 2050; if insufficient cash flow, payment may be deferred and interest for that year forgiven	97,299	97,299
Note payable to city of Newcastle, interest at 1%, annual payments of \$1,199 subject to project cash flow until maturity, June 1, 2050; if insufficient cash flow, payment may be deferred and interest for that year forgiven	45,731	45,731
Note payable to city of Kirkland, interest at 1%, annual payments of \$638 subject to project cash flow until maturity, June 1, 2050; if insufficient cash flow, payment may be deferred and interest for that year forgiven	24,325	24,325

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NOTE 6 LONG-TERM DEBT (CONTINUED)

<u>Description</u>	<u>2019</u>	<u>2018</u>
Grace Place's loans are secured by land and building with a carrying value at December 31, 2018, of \$1,046,500 and \$2,522,158, respectively		
<u>Andrew's Arms Apartments</u>		
Note payable to state of Washington Housing Trust Fund, original amount \$753,375, \$403,375 of original amount bears interest at 0.46%, annual payments of \$8,964 until maturity, December 31, 2042	\$ 549,111	\$ 557,122
Note payable to King County, no interest, principal due at maturity, December 6, 2030	173,992	173,992
<u>Andrew's Arms Apartments, Continued</u>		
Andrew's Arms' loans are secured by land and building with a carrying value at December 31, 2019, of \$219,531 and \$384,487, respectively		
<u>Andrew's Glen</u>		
Note payable to King County, no interest, principal due at maturity, June 30, 2061	2,910,889	2,910,889
Note payable to state of Washington Housing Trust Fund, no interest, principal due at maturity, June 30, 2061	2,345,816	2,345,816
Note payable to city of Bellevue, no interest; payments deferred until June 15, 2041, then annual payments of \$47,104 from available cash flow; annual repayment may be deferred, at the discretion of the City, for insufficient cash flow; principal due at maturity, June 30, 2061	883,400	883,400
Andrew's Glen's Loans are secured by land and building with a carrying value at December 31, 2019 of \$1,586,333 and \$7,116,049, respectively		
<u>Highland Gardens</u>		
Note payable to bank, interest at 4.75%, monthly payments of \$3,944 with remaining balance due at maturity, May 27, 2021	647,729	663,737

IMAGINE HOUSING AND AFFILIATES
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NOTE 6 LONG-TERM DEBT (CONTINUED)

<u>Description</u>	<u>2019</u>	<u>2018</u>
Note payable to Washington State Department of Commerce, interest at 1%, annual payments of \$11,076 until maturity, March 31, 2058; an additional \$94,960 was added to the loan in 2011, noninterest bearing, principal due at maturity, March 31, 2058	\$ 453,082	\$ 460,537
Note payable to Washington State Department of Commerce, interest at 1%, deferred until March 10, 2029, then annual payments of \$19,374 through maturity, March 10, 2058	500,000	500,000
Note payable to King County Home Program, noninterest bearing, principal due at maturity, December 15, 2045	950,000	950,000
<u>Highland Gardens, Continued</u>		
Note payable to King County Community Services Divisions, noninterest bearing, principal due at maturity, May 30, 2032	535,000	535,000
Note payable to King County Housing and Community Development Program, noninterest bearing, principal due at maturity, June 30, 2017, note was forgiven April 2, 2019	-	148,231
Note payable to City of Bellevue, interest at 1%, annual payments are due if net cash flow is greater than 3.5% of annual gross income, otherwise due at maturity in 2057	143,050	143,050
Highland Gardens' loans are secured by land and building with a carrying value at December 31, 2019, of \$858,286 and \$2,512,208, respectively		
<u>Chalet Apartments</u>		
Note payable to First Savings Bank Northwest in the original amount of \$490,000; interest at 7.25%; monthly payments of \$3,343 until maturity April 1, 2035	369,361	-
Note payable to King County in the original amount \$626,350; interest at 1% compounded annually begins to accrue January 1, 2005; annual payments of \$46,873 begin January 1, 2036 until maturity December 31, 2054	727,173	-

IMAGINE HOUSING AND AFFILIATES
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NOTE 6 LONG-TERM DEBT (CONTINUED)

<u>Description</u>	<u>2019</u>	<u>2018</u>
Note payable to State of Washington in the original amount of \$600,000; interest at 1% compounded quarterly begins to accrue December 1, 2004; quarterly payments of \$6,402 begin December 31, 2014, until maturity December 31, 2044	\$ 560,852	\$ -
Note payable to City of Bellevue in the original amount \$170,000; interest at 1% compounded annually begins to accrue January 1, 2005; annual payments of \$14,235 begin June 1, 2020, until maturity June 1, 2034; annual payments may be deferred at discretion of the City if insufficient cash flow to pay all operating expenses and pre-approved debt; deferred payments would be due at maturity, June 1, 2034	197,365	-
<u>Chalet Apartments, Continued</u>		
Note payable to City of Redmond, in the original amount \$40,000; deferred interest at 1% beginning January 1, 2005; annual principal and interest payments of \$3,349 due June 1, 2020 through 2034; payment may be deferred at discretion of the City if insufficient funds, deferred payments would be due at maturity, June 1, 2034	46,439	-
Note payable to Housing Authority of King County in the original amount \$80,014; deferred interest at 0.5% compounded annually; annual principal and interest payments of \$9,550 due March 15, 2035 through 2045	86,240	-
Chalet's loans are secured by land and building with a carrying value at December 31, 2019, of \$534,898 and \$1,147,695, respectively		
<u>Other Debt</u>		
Note payable to bank, no interest, principal due at maturity, September 12, 2057; invested in Imagine Gardens LLC	229,449	229,449
Notes payable to Impact Capital; interest at 6.2%; monthly payments of accrued interest only; outstanding principal and accrued unpaid interest payable in full on or before March 31, 2020; principal balances repaid April 4, 2019	-	13,631

IMAGINE HOUSING AND AFFILIATES
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NOTE 6 LONG-TERM DEBT (CONTINUED)

<u>Description</u>	<u>2019</u>	<u>2018</u>
Unsecured promissory notes to accredited lenders at 2%-3% simple interest paid annually; various maturity dates with principal and accrued but unpaid interest due on or before the maturity date of each note	\$ 1,000,000	\$ 640,000
Total Long-Term Debt	22,221,553	20,294,955
Less: Unamortized Debt Issuance Costs	186,568	164,085
Total Long-Term Debt Less Unamortized Debt Issuance Costs	<u>\$ 22,034,985</u>	<u>\$ 20,130,870</u>

Interest has not been imputed on any of the above notes payable that carry below-market rate interest as they are payable to governmental entities and carry legal restrictions. The restrictions require the Organization to use the property for low-income housing in accordance with the loan agreements.

Future principal payments of long-term debt, excluding debt issuance costs, are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2020	\$ 292,248
2021	918,791
2022	340,571
2023	564,176
2024	548,585
Forgiven Debt	1,110,137
Thereafter	18,447,045
Total	<u>\$ 22,221,553</u>

The Organization has a line of credit with a bank with a limit of \$4,500,000 that expires December 1, 2021. The line of credit bears interest at a variable rate equal to the LIBOR plus 2.25 percent (4.25 percent at December 31, 2019). The line of credit is secured by a deed of trust on commercial property. The line of credit had no balance outstanding at December 31, 2019.

NOTE 7 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Noncash investing and financing activities included the following:

	<u>2019</u>	<u>2018</u>
Construction in Progress Financed with Construction Costs Payable	\$ 20,748	\$ 328,349

During 2019 and 2018, cash paid for interest, net of amounts capitalized, was \$241,757 and \$217,279, respectively.

IMAGINE HOUSING AND AFFILIATES
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NOTE 8 RESTRICTED DEPOSITS

Restricted deposits consist of cash and cash equivalents as follows at December 31:

	2019	2018
Operating Reserve	\$ 204,602	\$ 200,973
Replacement Reserve	896,063	568,559
Donor-Restricted Cash	172,099	177,080
Total	<u>\$ 1,272,764</u>	<u>\$ 946,612</u>

The Organization is required by various loan and grant agreements to maintain operating and replacement reserves. Donor-restricted cash represents contributions received restricted for capital assets, including predevelopment and property improvements.

NOTE 9 INVESTMENTS ACCOUNTED FOR BY EQUITY METHOD

Imagine Housing and Affiliates are a general partner or managing member with a 0.01% interest in limited partnerships (LP) and limited liability companies (LLC) which are operating, constructing, or rehabilitating multifamily housing properties. The limited partners and investor members of these LPs and LLCs have substantive participating rights in operations and therefore consolidation of these entities is not warranted. The Organization accounts for its interests in these limited partnerships and limited liability companies using the equity method. Under the equity method, the investment is initially recorded at cost and is subsequently increased by the Organization's proportional share of net income and decreased by the proportional share of net loss. The total net income or loss from investments in these entities is reported as a single line item on these financial statements.

The Organization's ownership amounts in these investments at December 31 are as follows:

Affiliate	Partnership/Limited Liability Companies	2019	2018
Imagine Housing	East Village LLC	\$ 237,273	\$ 202,106
	Chalet Apartments LLC	-	159,745
RV Manager LLC	KTOD LLC	820	868
Ruby LLC	Mine Hill Limited Partnership	19,446	19,456
	280 Clark Limited Partnership	39,942	39,962
	Totem Lake Phase I LLC	(202)	(195)
Athene Manager LLC	Athene LLC	1,510	1,559
30Bellevue Manager LLC	30Bellevue LLC	1,214	1,260
Total Investments in LPs and LLCs		<u>\$ 300,003</u>	<u>\$ 424,761</u>

IMAGINE HOUSING AND AFFILIATES
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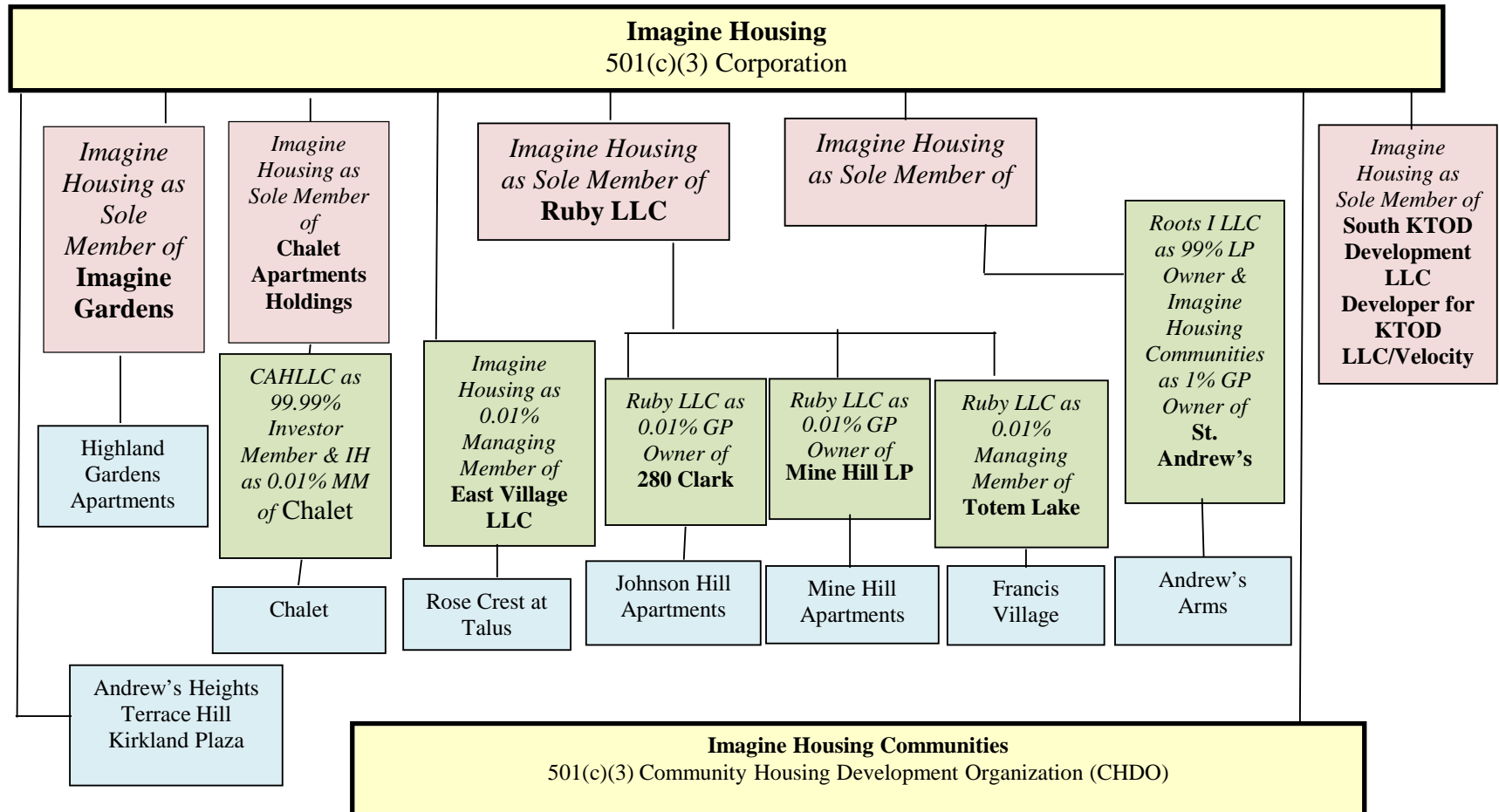
NOTE 9 INVESTMENTS ACCOUNTED FOR BY EQUITY METHOD (CONTINUED)

Financial information about these investments as of December 31 is summarized as follows:

	<u>2019</u>	<u>2018</u>
Total Assets	\$ 92,866,784	\$ 90,773,135
Total Liabilities	46,364,135	52,631,068
Operating Revenue	4,638,102	4,110,328
Net Income before Depreciation and Amortization	179,993	685,442

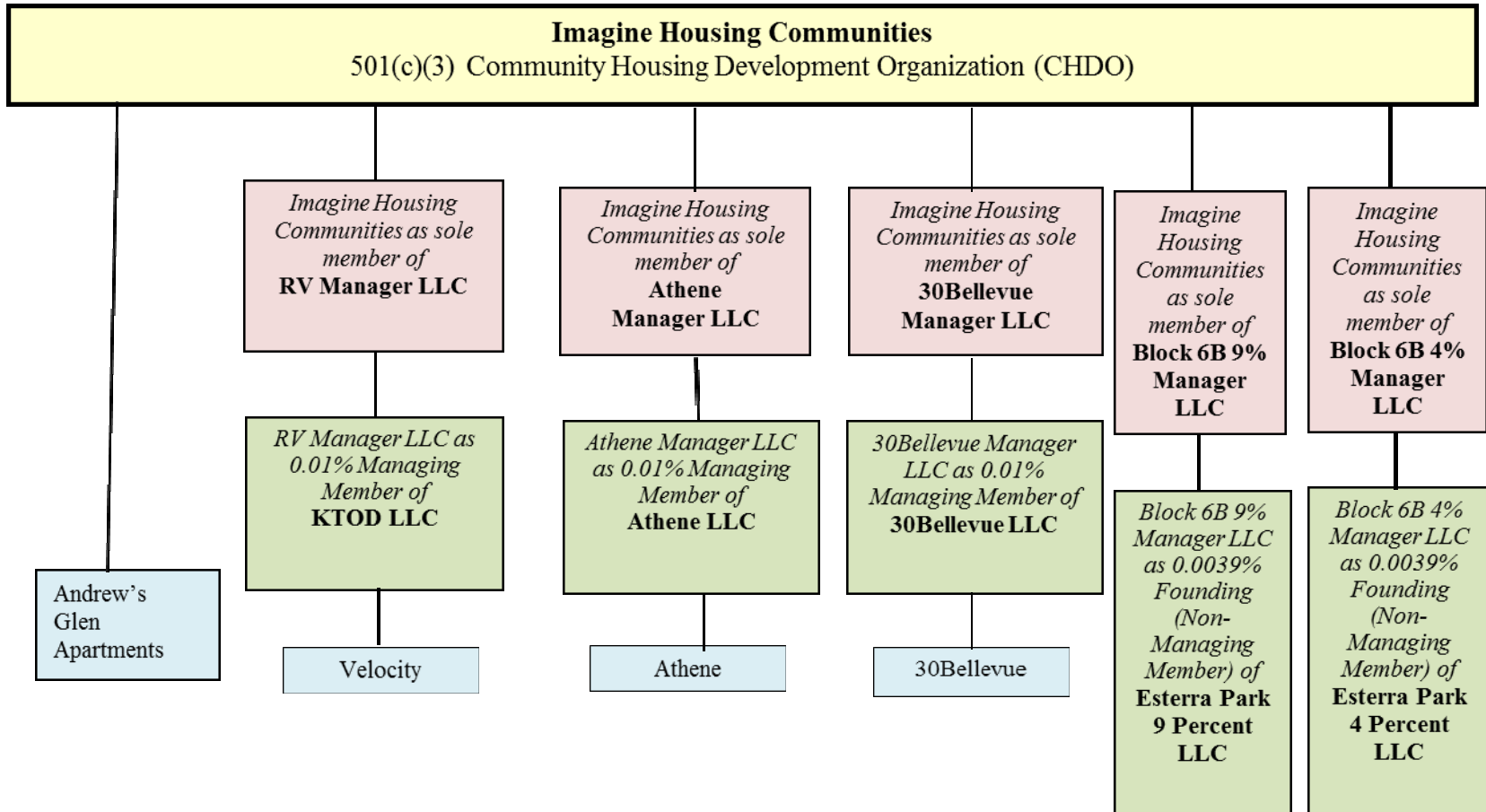
IMAGINE HOUSING AND AFFILIATES
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NOTE 10 RELATED PARTY TRANSACTIONS



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NOTE 10 RELATED PARTY TRANSACTIONS (CONTINUED)



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NOTE 10 RELATED PARTY TRANSACTIONS (CONTINUED)

Revenue earned from limited partnerships and limited liability companies is as follows:

	2019	2018
Development Fees	\$ 631,948	\$ -
Company Management Fees	92,096	189,009
Case Management Fees	157,440	155,802
Total	\$ 881,484	\$ 344,811

Receivables from limited partnerships and limited liability companies as of December 31, are as follows:

	2019	2018
Development Fees	\$ 792,859	\$ 775,696
Operating Deficit Advance	191,775	191,775
Company Management Fees	69,020	41,429
Case Management Fees	48,992	67,128
Reimbursable Development Costs	109,364	40,182
Reimbursable Operating Costs	75,681	3,638
Total	\$ 1,287,691	\$ 1,119,848

In addition, during 2019 and 2018, the Organization incurred rental assistance expense to a limited partnership of \$37,951 and \$76,904, respectively. At December 31, 2019 and 2018, \$19,404 and \$18,703, respectively, remained payable to the limited partnership.

NOTE 11 HOUSING ASSISTANCE PAYMENT CONTRACTS

Kirkland Plaza

The Organization entered into a contract with the U.S. Department of Housing and Urban Development (HUD) to receive housing assistance payments from HUD on behalf of qualified tenants of Kirkland Plaza. The current one-year contract expires on June 30, 2020. Housing assistance payments totaling \$207,600 and \$211,137 were received in 2019 and 2018, respectively.

Grace Place

The Organization entered into a contract with the U.S. Department of Housing and Urban Development (HUD) to receive housing assistance payments from HUD on behalf of qualified tenants of Grace Place (formerly known as Ellsworth House). Housing assistance payments totaling \$513,507 and \$503,687 were received in 2019 and 2018, respectively. The current five-year contract expires on January 31, 2020.

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NOTE 12 MANAGEMENT FEE CALCULATION

Kirkland Plaza

Effective October 1, 2011, the Organization entered into a contract with a third-party management company to manage Kirkland Plaza in compliance with HUD regulations. Effective February 1, 2019, the Organization entered into a 12-month contract with a new management company. Per the current agreement, the fee for management services is calculated based on 5.0% of residential income collected. Changes in the fee will be implemented only in accordance with HUD's requirements and with HUD's approval. Management fees totaling \$11,199 and \$13,886 were paid in 2019 and 2018, respectively.

Grace Place

Effective January 24, 2012, the Organization entered into a month-to-month contract with a third-party management company to manage Grace Place (formerly known as Ellsworth House) in compliance with HUD regulations. Effective February 1, 2019, the Organization entered into a 12-month contract with a new management company. Per the current agreement, the fee for management services is calculated based on 5.0 percent of residential income collected. Changes in the fee will be implemented only in accordance with HUD's requirements and with HUD's approval. Management fees totaling \$32,156 and \$34,500 were paid in 2019 and 2018, respectively.

NOTE 13 PENSION PLAN

Imagine Housing has established a qualified defined-contribution pension plan covering all eligible employees. The Organization matches employees' voluntary contributions up to three percent of gross salary. The Organization may also make additional contributions at its discretion. Employer discretionary and matching contributions are subject to a vesting schedule based on years of service. Employees are fully vested after five years of service. The Organization's contribution to the plan totaled \$33,984 and \$31,170 in 2019 and 2018, respectively.

NOTE 14 COMMITMENTS AND CONTINGENCIES

The Organization has a general partnership interest in three low-income housing limited partnerships; St. Andrew's Limited Partnership, Mine Hill Limited Partnership, and 280 Clark Limited Partnership; and a managing member interest in six low-income housing limited liability companies; East Village LLC, Chalet Apartments LLC, Totem Lake Phase I LLC, KTOD LLC, Athene LLC, and 30Bellevue LLC; and a founding (non-managing) member interest in two limited liability companies: Block 6B 9% Manager LLC and Block 6B 4% Manager LLC. In addition to the general partner and managing member liabilities, the Organization executed sponsor guarantee agreements assuring against operating deficits, reduced tax benefits, and construction completion.

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NOTE 14 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Amounts received from grantor agencies are subject to audit and adjustments by the grantor agency. Any disallowed cost, including amounts already collected, may constitute a liability for the Organization. The amounts, if any, of expenditures, which may be disallowed by the grantor, are recorded at the time that such amounts can be reasonably determined, normally upon notification of the government agency. During the years ended December 31, 2019 and 2018, no such adjustments were made.

NOTE 15 CONCENTRATIONS

The Organization maintains cash at several financial institutions. Accounts at each financial institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2018, the uninsured cash balances totaled \$4,566,558. The Organization has not experienced any losses in such accounts.

Donations from one donor comprised 58 percent of contribution revenue for the year ended December 31, 2019. The same donor also comprises 78 percent of grants and contributions receivable at December 31, 2019.

NOTE 16 RESTRICTIONS/LIMITATIONS ON NET ASSETS

Net Assets with Restrictions Designated by the Board

Imagine Housing has designated certain replacement and operating reserves for repairs and operating deficits at its properties. Also, Imagine Housing has established organizational reserves that can be made available for operating deficits, predevelopment costs to grow its ability to develop more affordable apartment homes, capital improvements to sustain the longevity of its current 15 properties, and expanded supportive services to residents to transform the lives of youth, adults, veterans, and seniors.

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NOTE 16 RESTRICTIONS/LIMITATIONS ON NET ASSETS (CONTINUED)

Changes in net assets of the board-designated fund consist of the following for the years ended December 31:

	Property Replacement Reserves	Property Operating Reserves	Organizational Reserves	Total
Balance, January 1, 2018	\$ 441,425	\$ 232,409	\$ 1,138,029	\$ 1,811,863
Deposits	49,300	11,022	27,500	87,822
Interest	158	70	3,252	3,480
Transfer to Designated	-	-	(206,746)	(206,746)
Balance, December 31, 2018	490,883	243,501	962,035	1,696,419
Deposits	22,238	13,341	152,944	188,523
Interest	264	435	3,871	4,570
Acquisition of Chalet Apts.	-	84,502	-	84,502
Transfer to Undesignated	-	-	1,448,123	1,448,123
Balance, December 31, 2019	<u>\$ 513,385</u>	<u>\$ 341,779</u>	<u>\$ 2,566,973</u>	<u>\$ 3,422,137</u>

Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purpose or periods:

	2019	2018
Supportive Services	\$ 93,168	\$ 138,387
Asset Management - Capital Improvements	172,099	177,080
Social Impact Investments	16,094	16,094
Donation Restricted for Future Periods (Note 3)	83,844	90,631
Land Lease (Note 5)	335,000	335,000
Total	<u>\$ 700,205</u>	<u>\$ 757,192</u>

NOTE 17 CONSTRUCTION IN PROGRESS

At December 31, the construction in progress account consisted of the following projects and their related costs:

	2019	2018
Esterra Park	\$ -	\$ 1,186,884
Samma Senior Apartments	69,275	-
Other	44,070	21,815
Total	<u>\$ 113,345</u>	<u>\$ 1,208,699</u>

IMAGINE HOUSING AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

NOTE 18 SUBSEQUENT EVENTS

On December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time. There has been no immediate impact to the Organization's operations. Future potential impacts may include disruptions or restrictions on our employees' ability to work or the tenants' ability to pay the required monthly rent. Operating functions that may be changed include intake, recertifications, and maintenance. Changes to the operating environment may increase operating costs. Additional impacts may include the ability of tenants to continue making rental payments as a result of job loss or other pandemic related issues. The future effects of these issues are unknown.

On April 22, 2020, Imagine Housing received a loan in the amount of \$535,203 as part of the Federal CARES Act Payroll Protection Program. The organization expects that most of this loan will be forgiven.

The Organization has evaluated subsequent events through August 25, 2020, which is the date the financial statements were available to be issued, and has determined that there are no other subsequent events that require recognition or additional disclosure.