

IMAGINE HOUSING AND AFFILIATES

Consolidated Financial Statements
and Supplementary Information
for the Year Ended December 31, 2016
(With Comparative Totals for 2015)
and Independent Auditor's Reports

IMAGINE HOUSING AND AFFILIATES
Table of Contents
For the Year Ended December 31, 2016

Independent Auditor’s Report.....	1
Financial Statements:	
Consolidated Statement of Financial Position	4
Consolidated Statement of Activities.....	6
Consolidated Statement of Functional Expenses	7
Consolidated Statement of Cash Flows	8
Notes to Consolidated Financial Statements.....	10
Supplementary Information Required by HUD:	
Consolidated Statement of Financial Position Data.....	28
Consolidated Statement of Activities Data and Net Assets	30
Consolidated Statement of Cash Flows Data.....	32
Supplementary Information Required by the Uniform Guidance:	
Schedule of Expenditures of Federal Awards.....	34
Notes to Schedule of Expenditures of Federal Awards	37
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	39
Independent Auditor’s Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance	41
Schedule of Findings and Questioned Costs.....	43
Certifications.....	46
Auditor’s Transmittal Letter	48

WATSON & McDONELL, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S 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 and Affiliates, which comprise the consolidated statement of financial position as of December 31, 2016, 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.

Auditor's 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.

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, 2016, 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.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, in 2016 Imagine Housing and Affiliates adopted the amendments to the Financial Accounting Standards Board Accounting Standards Codification resulting from Accounting Standards Update No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Imagine Housing and Affiliates' 2015 consolidated financial statements, and our report dated May 16, 2016, expressed an unmodified audit opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information shown on pages 28 to 33 is presented for purposes of additional analysis as required by the *Consolidated Audit Guide for Audits of HUD Programs* issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated 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 16, 2017, on our consideration of Imagine Housing and Affiliates' 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 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 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 Imagine Housing and Affiliates' internal control over financial reporting and compliance.

Watson & McDermott, PLLC

May 16, 2017

IMAGINE HOUSING AND AFFILIATES
Consolidated Statement of Financial Position
December 31, 2016
(With Comparative Totals for 2015)

ASSETS

	2016	2015
Current assets:		
Cash and cash equivalents	\$ 1,041,322	\$ 867,367
Security deposits	60,162	57,792
Tenant and subsidy receivables	20,478	13,153
Grants and contributions receivable	237,106	169,112
Beneficial interest in lead trust	7,134	
Due from limited partnerships and limited liability companies	137,387	323,170
Prepaid expenses and deposits	86,477	84,956
	<u>1,590,066</u>	<u>1,515,550</u>
Other assets:		
Board-designated reserves	1,658,693	1,377,656
Restricted deposits	799,290	1,078,697
Construction cash	26,145	26,132
Investment in limited partnerships and limited liability companies	423,713	422,208
Grants and contributions receivable	61,278	114,033
Beneficial interest in lead trust	97,589	
Due from limited partnerships and limited liability companies	1,239,719	1,320,270
Construction in progress	195,736	749,579
Capitalized costs, net	82,224	85,557
Intangible assets	30,000	30,000
	<u>4,614,387</u>	<u>5,204,132</u>
Buildings and equipment:		
Land	4,838,904	7,628,672
Land improvements	583,087	572,903
Buildings	24,279,783	24,124,380
Furnishings and equipment	668,482	616,019
Leasehold improvements	6,992	6,992
Less: accumulated depreciation	(7,885,887)	(7,166,490)
Less: contra-property account	(294,970)	(304,459)
	<u>22,196,391</u>	<u>25,478,017</u>
	<u>\$ 28,400,844</u>	<u>\$ 32,197,699</u>

The accompanying notes should be read with these financial statements.

IMAGINE HOUSING AND AFFILIATES
Consolidated Statement of Financial Position, Continued
December 31, 2016
(With Comparative Totals for 2015)

LIABILITIES AND NET ASSETS

	<u>2016</u>	<u>2015</u>
Current liabilities:		
Accrued expenses	\$ 255,658	\$ 143,913
Construction costs payable	8,570	73,864
Refundable advance		309
Due to limited partnerships and limited liability companies	22,514	20,121
Tenant deposits and prepaid rent	60,154	58,646
Accrued interest payable	50,544	223,473
Current portion of long-term debt	<u>387,681</u>	<u>3,375,837</u>
	<u>785,121</u>	<u>3,896,163</u>
Long-term debt:		
Notes payable, net of unamortized debt issuance costs	18,409,970	18,724,139
Forgivable debt	<u>1,185,137</u>	<u>1,185,137</u>
	<u>19,595,107</u>	<u>19,909,276</u>
	<u>20,380,228</u>	<u>23,805,439</u>
Net assets:		
Unrestricted net assets		
Unrestricted	5,616,917	6,024,582
Board-designated	<u>1,658,693</u>	<u>1,377,656</u>
	7,275,610	7,402,238
Temporarily restricted net assets	<u>745,006</u>	<u>990,022</u>
	<u>8,020,616</u>	<u>8,392,260</u>
	<u>\$ 28,400,844</u>	<u>\$ 32,197,699</u>

The accompanying notes should be read with these financial statements.

IMAGINE HOUSING AND AFFILIATES
Consolidated Statement of Activities
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2016</u>	<u>Total 2015</u>
Support and revenue:				
Special event revenue (not including \$482,376 and \$410,401, respectively, of contributions reported below)	\$ 71,012		\$ 71,012	\$ 74,211
Less: cost of direct benefits to donors	<u>(51,592)</u>		<u>(51,592)</u>	<u>(54,642)</u>
	19,420		19,420	19,569
Government grants	514,157		514,157	555,557
Contributions	628,002	\$ 129,983	757,985	672,224
Rental income, net	2,229,769		2,229,769	2,139,863
Management fees	219,854		219,854	234,883
Development fees	500,000		500,000	
Laundry and miscellaneous tenant fees	34,099		34,099	37,557
Interest income	5,479		5,479	3,563
Gain (loss) on investments in limited partnerships and limited liability companies	(120)		(120)	(29)
Other	18,310		18,310	9,519
Net assets released from restriction	<u>144,766</u>	<u>(144,766)</u>		
	<u>4,313,736</u>	<u>(14,783)</u>	<u>4,298,953</u>	<u>3,672,706</u>
Expenses:				
Program services:				
Asset management	2,843,818		2,843,818	2,739,380
Housing development	457,175		457,175	296,617
Supportive services	540,106		540,106	577,219
Administration	507,714		507,714	460,415
Fund development	<u>327,997</u>		<u>327,997</u>	<u>363,018</u>
	<u>4,676,810</u>		<u>4,676,810</u>	<u>4,436,649</u>
Excess (deficiency) of operating support and revenue over expenses	(363,074)	(14,783)	(377,857)	(763,943)
Other income:				
Capital grants and contributions	<u>236,446</u>	<u>(230,233)</u>	<u>6,213</u>	<u>75,894</u>
Change in net assets	(126,628)	(245,016)	(371,644)	(688,049)
Net assets, beginning of year	<u>7,402,238</u>	<u>990,022</u>	<u>8,392,260</u>	<u>9,080,309</u>
Net assets, end of year	<u>\$ 7,275,610</u>	<u>\$ 745,006</u>	<u>\$ 8,020,616</u>	<u>\$ 8,392,260</u>

The accompanying notes should be read with these financial statements.

IMAGINE HOUSING AND AFFILIATES
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

	<u>Asset Management</u>	<u>Housing Development</u>	<u>Supportive Services</u>	<u>Total Program</u>	<u>Administration</u>	<u>Fund Development</u>	<u>Total 2016</u>	<u>Total 2015</u>
Salaries and wages	\$ 189,994	\$ 247,633	\$ 359,623	\$ 797,250	\$ 330,173	\$ 111,497	\$ 1,238,920	\$ 1,218,739
Building staff	244,849			244,849			244,849	272,630
Payroll taxes and benefits	100,569	48,676	78,311	227,556	77,422	22,339	327,317	295,675
Advertising	417			417		9,522	9,939	9,150
Bad debt	8,918			8,918			8,918	16,579
Building supplies	197,041			197,041			197,041	171,635
Insurance	43,898	2,565	6,415	52,878	3,231	1,317	57,426	52,888
Interest	220,272			220,272			220,272	235,706
Interest - amortization of debt issuance costs	10,720			10,720			10,720	10,723
Travel	4,660	3,174	6,934	14,768	1,781	239	16,788	17,994
Office supplies and services	94,831	10,028	19,667	124,526	35,325	41,875	201,726	226,025
Miscellaneous expenses					603		603	632
Taxes and fees	13,719	7,500	4,453	25,672	790	15,394	41,856	31,543
Tenant screening and services	1,310			1,310			1,310	2,164
Tenant relations	721			721			721	578
Training	8,688	1,165	5,933	15,786	11,593	5,258	32,637	31,043
Professional services	43,901	14,189	1,130	59,220	4,268	108,844	172,332	114,488
Case management services			48,856	48,856			48,856	67,065
Property management fees	110,287			110,287			110,287	109,159
Property taxes	12,325			12,325			12,325	8,947
Rent	17,569	26,353	8,784	52,706	33,186	11,712	97,604	81,036
Repairs and maintenance	227,351			227,351			227,351	205,843
Rental assistance	76,083			76,083			76,083	76,796
Utilities	481,868			481,868			481,868	454,686
Development expense		55,892		55,892			55,892	3,784
Grant refund expense		40,000		40,000			40,000	
Loss on disposal of assets	1,498			1,498			1,498	
Amortization	3,333			3,333			3,333	3,333
Depreciation	728,996			728,996	9,342		738,338	717,808
Total expenses	<u>\$ 2,843,818</u>	<u>\$ 457,175</u>	<u>\$ 540,106</u>	<u>\$ 3,841,099</u>	<u>\$ 507,714</u>	<u>\$ 327,997</u>	<u>\$ 4,676,810</u>	<u>\$ 4,436,649</u>

The accompanying notes should be read with these financial statements.

IMAGINE HOUSING AND AFFILIATES
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ (371,644)	\$ (688,049)
Adjustments:		
Depreciation and amortization	741,671	721,141
Loss (gain) on investments	120	29
Other income - amortization of contra-property account	(9,489)	(9,489)
Interest - amortization of debt issuance costs	10,720	10,723
Loss on disposal of assets	1,498	
Grants and contributions restricted for long-term purposes	(6,213)	(75,894)
Decrease (increase) in operating assets:		
Security deposits	(2,370)	(3,387)
Tenant and subsidy receivables	(7,325)	1,202
Grants and contributions receivable	(67,994)	216,962
Due from limited partnerships and limited liability companies	10,020	(22,309)
Beneficial interest in lead trust	(104,723)	
Prepaid expenses and deposits	(1,521)	(13,759)
Increase (decrease) in operating liabilities:		
Accrued expenses	111,745	26,498
Refundable advance	(309)	(39,772)
Due to limited partnerships and limited liability companies	2,393	1,727
Tenant deposits and prepaid rent	1,508	3,129
Accrued interest payable	(172,929)	52,941
	135,158	181,693
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of land and land improvements	(10,184)	(83,891)
Purchase of building	(155,403)	(97,896)
Purchase of furnishings, equipment and vehicles	(72,902)	(39,017)
Construction in progress	(89,088)	(240,660)
Transfer of land and construction in progress to related party	3,441,269	
Deferred developer fee and notes receivable - related party	256,314	746,159
Investment in partnerships and limited liability companies, net	(1,625)	
Deposits to construction cash	(13)	
Withdrawals from construction cash		92,955
Deposits to restricted deposits	(111,304)	(460,765)
Withdrawals from restricted deposits	390,711	299,448
Deposits to reserves	(576,612)	(433,335)
Withdrawals from reserves	295,575	513
	3,366,738	(216,489)

The accompanying notes should be read with these financial statements.

IMAGINE HOUSING AND AFFILIATES
 Consolidated Statement of Cash Flows, Continued
 For the Year Ended December 31, 2016
 (With Comparative Totals for 2015)

	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES:		
Grants and contributions restricted for long-term purposes	\$ 58,968	\$ 189,631
Construction costs payable	(73,864)	(1,702)
Payments on long-term debt	(4,164,425)	(256,672)
Proceeds from long-term debt	<u>851,380</u>	<u>53,123</u>
	<u>(3,327,941)</u>	<u>(15,620)</u>
Net increase (decrease) in cash	173,955	(50,416)
Cash and cash equivalents, beginning of year	<u>867,367</u>	<u>917,783</u>
Cash and cash equivalents, end of year	<u>\$ 1,041,322</u>	<u>\$ 867,367</u>

The accompanying notes should be read with these financial statements.

IMAGINE HOUSING AND AFFILIATES
Notes to Consolidated Financial Statements
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

NOTE 1 - NATURE OF THE 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, 2016, it managed 13 residential apartment buildings, having ownership of seven and partial ownership of six others through limited partnerships and limited liability companies. These buildings provide 485 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, Red Vines 1, Ruby LLC, Roots I LLC, Imagine Gardens LLC, Athene Manager LLC, RV Manager LLC, South KTOD Development LLC, and 30Bellevue LLC. The limited liability companies consolidated in these statements are either single member limited liability corporations or otherwise controlled by Imagine Housing or Red Vines 1. Red Vines 1 is a 501(c)(3) nonprofit Community Housing Development Organization. Imagine Housing has effective control over Red Vines 1; two-thirds of the members of the board of Red Vines 1 are also members of the board of Imagine Housing, and Imagine Housing has approval authority over appointment of all Red Vines 1 board members. Inter-organization and affiliated organization accounts and transactions have been eliminated in the consolidation.

The Organization has investments in various partnerships and companies which are accounted for by the equity method (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 three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization had no permanently restricted net assets at December 31, 2016 or 2015.

IMAGINE HOUSING AND AFFILIATES
Notes to Consolidated Financial Statements
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Restricted and unrestricted revenue and support

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the restriction. When a restriction expires, restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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.

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 \$20,478 and \$13,153 were due to the Organization at December 31, 2016 and 2015, respectively. No allowance for doubtful accounts was considered necessary at December 31, 2016 or 2015.

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. Interest costs of \$88,497 and \$105,887 were capitalized during 2016 and 2015, respectively. Depreciation has been computed on the straight-line basis for furnishings and equipment over 5 to 10 years, for vehicles and leasehold improvements over 3 years, for land improvements over 15 years, and for buildings and improvements over 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 2016 or 2015.

IMAGINE HOUSING AND AFFILIATES
Notes to Consolidated Financial Statements
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

New accounting standard

In 2016, the Organization adopted new authoritative guidance regarding the presentation of debt issuance costs and related amortization. The adoption of this guidance is a change in accounting principle, which has been applied retrospectively. Debt issuance costs are now reported on the consolidated statement of financial position as a direct deduction from the face amount of the debt (see Note 6, Long-Term Debt). Previously, the Organization reflected unamortized debt issuance costs as deferred charges in the consolidated statement of financial position and has retroactively reclassified 2015 amounts in accordance with the new guidance. The reclassifications reduced total assets and debt at December 31, 2015 by \$196,242 with no effect on net assets.

Amortization is required to be included with interest expense in the consolidated statement of activities. Accounting principles generally accepted in the United States of America require that the effective yield method be used to amortize debt issuance 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. Interest expense for 2015 has been increased (and amortization expense decreased) by \$10,723 with no effect on previously reported earnings.

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 \$17,776 and \$14,443 at December 31, 2016 and 2015, respectively.

Donated property, equipment and services

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

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, 2016 and 2015, accumulated amortization of the contra-property account was \$44,515 and \$35,026, respectively.

Intangible assets

Intangible assets consist of transferable development rights owned by the Organization. These assets have an indefinite life and are non-amortizing.

IMAGINE HOUSING AND AFFILIATES
Notes to Consolidated Financial Statements
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Tax-exempt status

Imagine Housing and Red Vines 1 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).

Ruby LLC, Roots I LLC, South KTOD Development LLC, Imagine Gardens LLC, Athene Manager LLC, RV Manager LLC, and 30Bellevue LLC are single member limited liability companies. Imagine Housing is the sole member of Ruby LLC, Roots I LLC, South KTOD Development LLC and Imagine Gardens LLC. Red Vines 1 is the sole member of Athene Manager LLC, RV Manager LLC, and 30Bellevue LLC. Ruby LLC, Roots I LLC, South KTOD Development LLC, Imagine Gardens LLC, Athene Manager LLC, RV Manager LLC, and 30Bellevue LLC 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 no 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, 2015, from which the summarized information was derived.

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.

IMAGINE HOUSING AND AFFILIATES
Notes to Consolidated Financial Statements
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

NOTE 3 - PLEDGES RECEIVABLE RESTRICTED TO CAPITAL CAMPAIGN

In 2012, Imagine Housing launched a five-year major fundraising campaign with total funds raised to be designated towards predevelopment costs to grow its ability to develop more affordable apartment homes, capital improvements to sustain the longevity of its current 13 properties, and expanded supportive services to residents to transform the lives of youth, adults, veterans and seniors. Contributions are recognized as revenue in the period pledges are received. Pledges assigned to predevelopment costs and to capital improvements are classified as capital contributions while those assigned to supportive services are classified as operating contributions on the statement of activities.

Pledges, both restricted and unrestricted, expected to be collected within one year, are recorded at their net realizable value. Pledges that are expected to be collected in future years are recorded at the present value of estimated cash flows, which approximates fair value. The present value of estimated future cash flows has been measured utilizing a discount rate of 0.51 percent to 1.60 percent. Management believes all pledges are fully collectible, and no allowance has been recorded. At December 31, 2016 and 2015, pledges are expected to be realized in the following time frame:

	2016	2015
Less than one year	\$ 90,405	\$ 115,837
One to five years	4,400	60,007
Less present value discount	(3,345)	(5,646)
Net pledges	\$ 91,460	\$ 170,198

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 \$104,723, which was reported in 2016 as a temporarily restricted contribution and a contribution receivable from charitable lead trust. The Organization received \$7,500 from the trust in 2016, which was recorded as a reduction in the receivable and a corresponding reclassification from temporarily restricted to unrestricted net assets. The Organization also recorded amortization of the discount on the estimated present value of future benefits of \$185 in 2016.

IMAGINE HOUSING AND AFFILIATES
Notes to Consolidated Financial Statements
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

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 the leases for 2016 and 2015 were \$97,604 and \$81,036, respectively.

Future minimum payments under the lease are as follows:

2017	\$ 89,611
2018	93,579
2019	97,547
2020	<u>92,752</u>
	<u>\$ 373,489</u>

NOTE 6 - LONG-TERM DEBT

Andrew's Heights

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

<u>2016</u>	<u>2015</u>
\$ 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
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IMAGINE HOUSING AND AFFILIATES
Notes to Consolidated Financial Statements
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

NOTE 6 - LONG-TERM DEBT, CONTINUED

	2016	2015
<u>Andrew's Heights, continued</u>		
Note payable to State of Washington, interest at 1%, annual payments of \$33,256 until maturity, December 31, 2055	\$ 1,073,503	\$ 1,095,902
<p>Andrew's Heights' loans are secured by land and building with a carrying value at December 31, 2016, of \$308,727 and \$1,577,675, respectively.</p>		
<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	203,477	212,953
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	356,997	366,166
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, payment may be deferred and interest for that year forgiven	66,353	66,353
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	25,000	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

IMAGINE HOUSING AND AFFILIATES
Notes to Consolidated Financial Statements
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

NOTE 6 - LONG-TERM DEBT, CONTINUED

	2016	2015
<u>Terrace Hill Apartments, continued</u>		
Terrace Hill Apartments' loans are secured by land and building with a carrying value at December 31, 2016, of \$226,319 and \$1,190,652, respectively.		
<u>Kirkland Plaza</u>		
Note payable to bank, interest at 6.75%, monthly payments of \$2,906 until maturity, January 1, 2029	\$ 287,565	\$ 302,475
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
Note payable to City of Kirkland, simple interest at 1%, annual payment 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	221,333	227,178
Kirkland Plaza's loans are secured by land and building with a carrying value at December 31, 2016, of \$593,208 and \$813,905, respectively.		
<u>Ellsworth House</u>		
Note payable to bank, interest at 5.75%, monthly payments of \$15,902 until maturity, October 8, 2029	1,736,766	1,824,959
Note payable to bank, interest at 5.1565%, monthly payments of \$3,406 until maturity, October 8, 2029	382,950	403,499

IMAGINE HOUSING AND AFFILIATES
Notes to Consolidated Financial Statements
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

NOTE 6 - LONG-TERM DEBT, CONTINUED

	2016	2015
<u>Ellsworth House, continued</u>		
Note payable to Washington State Housing Trust Fund, interest at 1%, annual payments of \$25,513 until maturity, October 30, 2049	\$ 714,089	\$ 732,279
Note payable to King County Department of Community and Human Services, no interest, principal due at maturity, September 1, 2049	297,793	297,793
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	441,291	441,291
Note payable to City of Mercer Island, interest at 1%, annual payments of \$4,210 subject to project cash flow until maturity, June 1, 2050; if insufficient cash flow, payment may be deferred and interest for that year forgiven	161,807	161,807
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	98,065	98,065
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	46,090	46,090
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	24,516	24,516

IMAGINE HOUSING AND AFFILIATES
Notes to Consolidated Financial Statements
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

NOTE 6 - LONG-TERM DEBT, CONTINUED

	2016	2015
<u>Ellsworth House, continued</u>		
Ellsworth House's loans are secured by land and building with a carrying value at December 31, 2016, of \$1,046,500 and \$2,940,419, 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	\$ 573,034	\$ 580,936
Note payable to King County, no interest, principal due at maturity, December 6, 2030	173,992	173,992
Andrew's Arms' loans are secured by land and building with a carrying value at December 31, 2016, of \$219,531 and \$481,600, 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, 2016, of \$1,586,333 and \$7,863,545, 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	693,646	730,844

IMAGINE HOUSING AND AFFILIATES
Notes to Consolidated Financial Statements
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

NOTE 6 - LONG-TERM DEBT, CONTINUED

	2016	2015
<u>Highland Gardens, continued</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, non-interest bearing, principal due at maturity, March 31, 2058	\$ 475,226	\$ 482,459
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	499,999	499,999
Note payable to King County Home Program, non-interest bearing, principal due at maturity, December 15, 2045	950,000	950,000
Note payable to King County Community Services Divisions, non-interest bearing, principal due at maturity, May 30, 2032	535,000	535,000
Note payable to King County Housing and Community Development Program, non-interest-bearing, principal due at maturity, June 30, 2017	148,231	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, 2016, of \$858,286 and \$2,758,793, respectively.		
<u>Other debt</u>		
Note payable to Impact Capital, in the original amount of \$1,516,810; interest at 6% paid monthly, principal due at maturity, May 31, 2014, subject to extension in the sole discretion of the lender, extension granted through December 31, 2016; paid in full August 30, 2016, when property was sold to Athene LLC		722,381

IMAGINE HOUSING AND AFFILIATES
Notes to Consolidated Financial Statements
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

NOTE 6 - LONG-TERM DEBT, CONTINUED

	2016	2015
<u>Other debt, continued</u>		
Note payable to King County, interest at 3% accrues annually, principal due at maturity, May 31, 2015, subject to extension in the sole discretion of the lender; extension granted through December 30, 2016; paid in full August 30, 2016, when property was sold to Athene LLC		\$ 1,999,600
Note payable to Inland Totem Lake, LLC, interest at 1% accrues beginning May 15, 2013, principal due at maturity, May 31, 2015, subject to extension in the sole discretion of the lender, extension granted through December 31, 2016; paid in full August 30, 2016, when property was sold to Athene LLC		400,000
Note payable to City of Bellevue, interest at 1% compounds annually beginning January 1, 2019; payments deferred until June 30, 2034, then annual payments of \$1,974 from available cash flow; annual repayment may be deferred, at the discretion of the City, for insufficient cash flow; principal due at maturity, August, 2066; secured by deed of trust	\$ 50,000	
Note payable to bank, no interest, principal due at maturity, September 12, 2057; invested in Imagine Gardens LLC	229,449	229,449
Note payable to City of Issaquah, no interest, principal due September 10, 2017; the Organization loaned this amount to St. Andrew's Limited Partnership with identical terms	15,286	15,286
Total long-term debt	20,168,310	23,481,355
Less unamortized debt issuance costs	(185,522)	(196,242)
Total long-term debt less unamortized debt issuance costs	<u>\$19,982,788</u>	<u>\$23,285,113</u>

In 2016, the Organization adopted new authoritative guidance for the presentation of debt issuance costs and related amortization (see Note 2).

IMAGINE HOUSING AND AFFILIATES
Notes to Consolidated Financial Statements
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

NOTE 6 - LONG-TERM DEBT, CONTINUED

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:

2017	\$	387,681
2018		233,954
2019		244,301
2020		255,109
2021		896,744
Forgivable debt		1,185,137
Thereafter		<u>16,965,384</u>
	\$	<u>20,168,310</u>

NOTE 7 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Non-cash investing and financing activity included the following:

	<u>2016</u>	<u>2015</u>
Construction in progress financed with construction costs payable	\$ <u>8,570</u>	\$ <u>73,864</u>

During 2016 and 2015, cash paid for interest, net of amounts capitalized, was \$219,681 and \$247,025, respectively.

NOTE 8 - RESTRICTED DEPOSITS

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

	<u>2016</u>	<u>2015</u>
Operating reserve	\$ 195,117	\$ 190,174
Replacement reserve	455,354	489,494
Donor-restricted cash	<u>148,819</u>	<u>399,029</u>
	\$ <u>799,290</u>	\$ <u>1,078,697</u>

IMAGINE HOUSING AND AFFILIATES
Notes to Consolidated Financial Statements
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

NOTE 8 - RESTRICTED DEPOSITS, CONTINUED

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 interests in these investments at December 31 are as follows:

<u>Affiliate</u>	<u>Partnership/Limited Liability Company</u>	<u>2016</u>	<u>2015</u>
Imagine Housing	East Village LLC	\$ 202,135	\$ 202,149
	Chalet Apartments LLC	159,757	159,762
RV Manager LLC	KTOD LLC	952	1,001
Ruby LLC	Mine Hill Limited Partnership	19,479	19,487
	280 Clark Limited Partnership	39,936	39,950
	Totem Lake Phase I LLC	(171)	(141)
Athene Manager LLC	Athene LLC	<u>1,625</u>	
Total investment in LPs and LLCs		<u>\$ 423,713</u>	<u>\$ 422,208</u>

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

	<u>2016</u>	<u>2015</u>
Total assets	\$ 59,834,664	\$ 53,743,162
Total liabilities	35,174,780	30,291,506
Operating revenue	2,887,593	2,734,042
Net income before depreciation and amortization	358,068	253,711

IMAGINE HOUSING AND AFFILIATES
Notes to Consolidated Financial Statements
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

NOTE 10 - RELATED PARTY TRANSACTIONS

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

	<u>2016</u>	<u>2015</u>
Development fees	\$ 500,000	
Company management fees	79,827	\$ 106,755
Case management fees	<u>140,027</u>	<u>128,128</u>
	<u>\$ 719,857</u>	<u>\$ 234,883</u>

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

	<u>2016</u>	<u>2015</u>
Development fees	\$ 595,681	\$ 801,894
Note receivable including interest	409,139	409,139
Operating deficit advance	234,899	285,000
Company management fees	46,364	30,450
Case management fees	48,495	66,337
Reimbursable development costs	39,550	29,477
Reimbursable operating costs	<u>2,978</u>	<u>21,143</u>
	<u>\$ 1,377,106</u>	<u>\$ 1,643,440</u>

In addition, during 2016 and 2015, the Organization incurred rental assistance expense to a limited partnership of \$76,083 and \$76,796, respectively. At December 31, 2016 and 2015, \$22,514 and \$20,121, respectively, remained payable to the limited partnership.

NOTE 11 - HOUSING ASSISTANCE PAYMENT CONTRACTS

Kirkland Plaza

The Organization entered into a five-year contract, beginning July 21, 2009, 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 contract renewed effective July 21, 2014, for an additional five-year period. Housing assistance payments totaling \$194,522 and \$188,299 were received in 2016 and 2015, respectively.

IMAGINE HOUSING AND AFFILIATES
Notes to Consolidated Financial Statements
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

NOTE 11 - HOUSING ASSISTANCE PAYMENT CONTRACTS, CONTINUED

Ellsworth House

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 Ellsworth House. Housing assistance payments totaling \$498,210 and \$493,081 were received in 2016 and 2015, respectively. The current five-year contract expired on January 31, 2015. The contract renewed for another five-year term effective February 1, 2015.

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. Per the current agreement, the fee for management services is calculated based on 4.99 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 \$12,910 and \$12,318 were paid in 2016 and 2015, respectively.

Ellsworth House

Effective January 24, 2012, the Organization entered into a month-to-month contract with a third party management company to manage Ellsworth House in compliance with HUD regulations. Per the current agreement, the fee for management services is calculated based on 5.40 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 \$33,537 and \$33,001 were paid in 2016 and 2015, 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 \$24,412 and \$21,233 in 2016 and 2015, respectively.

IMAGINE HOUSING AND AFFILIATES
Notes to Consolidated Financial Statements
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

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 five low-income housing limited liability companies; East Village LLC, Chalet Apartments LLC, Totem Lake Phase I LLC, KTOD LLC, and Athene 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.

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, 2016 and 2015, no such adjustments were made.

NOTE 15 - CONCENTRATION OF CREDIT RISK

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, 2016 and 2015, the uninsured cash balances totaled \$1,623,958 and \$1,699,224, respectively. The Organization has not experienced any losses in such accounts.

NOTE 16 - RESTRICTIONS/LIMITATIONS ON NET ASSETS

Unrestricted, board-designated net assets

The Organization's board of directors has chosen to place the following limitations on unrestricted net assets:

	2016	2015
Operating reserves	\$ 921,863	\$ 807,549
Replacement reserves	736,830	570,107
	\$ 1,658,693	\$ 1,377,656

IMAGINE HOUSING AND AFFILIATES
Notes to Consolidated Financial Statements
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

NOTE 16 - RESTRICTIONS/LIMITATIONS ON NET ASSETS, CONTINUED

Temporarily restricted net assets

Temporarily restricted net assets are available for the following purpose or periods:

	<u>2016</u>	<u>2015</u>
Housing development		\$ 255,371
Supportive services	\$ 17,944	81,919
Asset management - capital improvements	277,339	302,232
Auction	10,000	15,500
Donation restricted for future periods, Note 4	104,723	
Land lease, Note 5	<u>335,000</u>	<u>335,000</u>
	<u>\$ 745,006</u>	<u>\$ 990,022</u>

NOTE 17 - CONSTRUCTION IN PROGRESS

At December 31, 2016 and 2015, the construction in progress account consisted of the following projects and their related costs:

	<u>2016</u>	<u>2015</u>
Athene		\$ 642,808
30Bellevue	\$ 192,579	103,478
Other	<u>3,157</u>	<u>3,293</u>
	<u>\$ 195,736</u>	<u>\$ 749,579</u>

NOTE 18 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through May 16, 2017, which is the date the financial statements were available to be issued, and has determined that there are no subsequent events that require recognition or additional disclosure.

IMAGINE HOUSING AND AFFILIATES
Consolidated Statement of Financial Position Data
December 31, 2016

ASSETS

Current assets:

1120	Cash - operations	\$ 1,041,322
1121	Cash - construction	<u>26,145</u>
1130	Tenant receivable	<u>16,235</u>
1130N	Net tenant receivable	<u>16,235</u>
1135	Accounts receivable - HUD	<u>4,243</u>
1140	Accounts receivable - operations	<u>244,240</u>
1145	Accounts receivable - entity	<u>137,387</u>
1200	Prepaid expenses and deposits	<u>86,477</u>
1100T	Total current assets	<u>1,556,049</u>
1191	Tenant deposits held in trust	<u>60,162</u>
1330	Other reserves - operating and board-designated	<u>2,457,983</u>
1300T	Total reserve deposits	<u>2,457,983</u>

Buildings and equipment:

1410	Land	5,421,991
1420	Buildings	24,279,783
1460	Furnishings	599,671
1465	Office furniture and equipment	68,811
1490	Leasehold improvements	6,992
1490	Contra-property account	<u>(294,970)</u>
1400T	Total fixed assets	30,082,278
1495	Accumulated depreciation	<u>(7,885,887)</u>
1400N	Net fixed assets	<u>22,196,391</u>

Other assets:

1515	Investments - entity	423,713
1520	Deferred financing costs, net	82,224
1590	Due from limited partnerships and limited liability companies	1,239,719
1590	Construction in progress	195,736
1590	Miscellaneous other assets	<u>188,867</u>
1500T	Total other assets	<u>2,130,259</u>
1000T	Total assets	<u>\$ 28,400,844</u>

IMAGINE HOUSING AND AFFILIATES
Consolidated Statement of Financial Position Data, Continued
December 31, 2016

LIABILITES AND NET ASSETS

Current liabilities:

2110	Accounts payable - operations	\$	233,520
2111	Accounts payable - construction/development		8,570
2113	Accounts payable - entity		22,514
2120	Accrued wages payable		22,138
2131	Accrued interest payable		18,249
2170	Mortgages payable - short term		387,681
2210	Prepaid rent		<u>6,809</u>
2122T	Total current liabilities		<u>699,481</u>
2191	Tenant deposits held in trust		<u>53,345</u>

Long-term liabilities:

2320	Mortgages or notes payable		19,780,629
2330	Interest on loans or notes payable (long term)		32,295
2340	Debt issuance costs, net		<u>(185,522)</u>
2300T	Total long term liabilities		<u>19,627,402</u>
2000T	Total liabilities		<u>20,380,228</u>

Net assets:

3131	Unrestricted		7,275,610
3132	Temporarily restricted		<u>745,006</u>
3130	Total net assets		<u>8,020,616</u>
2033T	Total liabilities and net assets	\$	<u>28,400,844</u>

IMAGINE HOUSING AND AFFILIATES
Consolidated Statement of Activities Data and Net Assets
For the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
Revenue:			
5120 Rent revenue - gross potential	\$ 1,361,722		\$ 1,361,722
5121 Tenant assistance payments	895,704		895,704
5100T Total rent revenue	2,257,426		2,257,426
5220 Vacancy	(27,657)		(27,657)
5200T Total vacancies	(27,657)		(27,657)
5152N Net rental revenue	2,229,769		2,229,769
5410 Financial revenue - project operations	5,479		5,479
5400T Total financial revenue	5,479		5,479
5910 Laundry and vending revenue	21,254		21,254
5920 Tenant charges	12,845		12,845
5970 Gifts and contributions	1,142,159	\$ 129,983	1,272,142
5960 Expiration of gift donor restrictions	144,766	(144,766)	
5990 Miscellaneous	757,464		757,464
5900T Total other revenue	2,078,488	(14,783)	2,063,705
5000T Total revenue	4,313,736	(14,783)	4,298,953
Expenses:			
6210 Advertising & marketing	9,939		9,939
6250 Other renting expense	2,031		2,031
6310 Office salaries	1,238,920		1,238,920
6311 Office expenses	201,726		201,726
6320 Property management fee	110,287		110,287
6330 Manager salaries	145,887		145,887
6340 Legal expense - project	3,671		3,671
6350 Audit expense	43,640		43,640
6370 Bad debts	8,918		8,918
6390 Miscellaneous administrative expense	192,408		192,408
6263T Total administrative expenses	1,957,427		1,957,427
6450 Electricity	112,264		112,264
6451 Water	99,891		99,891
6452 Gas	6,996		6,996
6453 Sewer	180,148		180,148
6400T Total utilities expense	399,299		399,299

IMAGINE HOUSING AND AFFILIATES
Consolidated Statement of Activities Data and Net Assets, Continued
For the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
Expenses, Continued:			
6510 Maintenance payroll	\$ 98,962		\$ 98,962
6515 Supplies (janitor)	197,041		197,041
6520 Contracts (repairs & maintenance)	198,159		198,159
6525 Garbage and trash removal	82,569		82,569
6530 Security payroll/contract	29,192		29,192
6500T Total operating and maintenance expense	605,923		605,923
6710 Property taxes	12,325		12,325
6711 Payroll taxes (projects share)	119,881		119,881
6720 Property and liability insurance (hazard)	57,426		57,426
6722 Workmen's compensation	15,871		15,871
6723 Health insurance and other employee benefits	191,565		191,565
6790 Miscellaneous taxes, licenses, permits and and insurance	17,528		17,528
6700T Total taxes and insurance	414,596		414,596
6820 Interest on first mortgage	220,272		220,272
6830 Interest: amortization of debt issuance costs	10,720		10,720
6890 Lease expenses	97,604		97,604
6890 Miscellaneous financial expenses	8,467		8,467
6800T Total financial expenses	337,063		337,063
6000T Total cost of operations before amortization and depreciation	3,714,308		3,714,308
5060T Profit (loss) before depreciation and amortization	599,428	\$ (14,783)	584,645
6600 Depreciation	738,338		738,338
6610 Amortization	3,333		3,333
5060N Operating profit or (loss)	(142,243)	(14,783)	(157,026)
7105 Capital grants and contributions	236,446	(230,233)	6,213
7190 Other expenses	(220,831)		(220,831)
7100T Net entity expenses	15,615	(230,233)	(214,618)
3250 Change in net assets from operations	(126,628)	(245,016)	(371,644)
S1100-050 Net assets, beginning of year	7,402,238	990,022	8,392,260
3130 Net assets, end of year	\$ 7,275,610	\$ 745,006	\$ 8,020,616

IMAGINE HOUSING AND AFFILIATES
Consolidated Statement of Cash Flows Data
For the Year Ended December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

S1200-010	Rental receipts	\$ 2,223,386
S1200-020	Interest receipts	5,479
S1200-025	Gifts	1,191,662
S1200-030	Other operating receipts	<u>781,850</u>
S1200-040	Total receipts	<u>4,202,377</u>
S1200-050	Administrative expenditures	(471,882)
S1200-070	Management fees	(113,180)
S1200-090	Utilities	(395,130)
S1200-100	Salaries and wages	(1,488,245)
S1200-110	Operating and maintenance	(473,794)
S1200-115	Lease payments	(90,185)
S1200-120	Real estate taxes	(12,325)
S1200-140	Property insurance	(58,947)
S1200-150	Miscellaneous taxes and insurance	(341,621)
S1200-160	Tenant security deposits	(1,804)
S1200-170	Other operating expenses	(8,467)
S1200-180	Interest on mortgages payable	(393,201)
S1200-225	Entity disbursements	<u>(218,438)</u>
S1200-230	Total disbursements	<u>(4,067,219)</u>
S1200-240	Net cash provided (used) by operating activities	<u>135,158</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

S1200-255	Net deposits to other reserves	(1,630)
S1200-330	Net purchase of fixed assets	(238,489)
S1200-340	Due from limited partnerships and limited liability companies	256,314
S1200-340	Investment in partnerships and limited liability companies, net	(1,625)
S1200-345	Entity/construction investing activities	<u>3,352,181</u>
S1200-350	Net cash provided (used) by investing activities	<u>3,366,751</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

S1200-365	Proceeds from mortgages, loans or notes payable	851,380
S1200-370	Principal payments on mortgages payable	(4,164,425)
S1200-450	Entity financing activities	58,968
S1200-455	Entity/construction financing activities	<u>(73,864)</u>
S1200-460	Net cash provided (used) by financing activities	<u>(3,327,941)</u>
S1200-470	Net increase (decrease) in cash	173,968
S1200-480	Cash and cash equivalents, beginning of year	<u>893,499</u>
S1200T	Cash and cash equivalents, end of year	<u>\$ 1,067,467</u>

IMAGINE HOUSING AND AFFILIATES
Consolidated Statement of Cash Flows Data, Continued
For the Year Ended December 31, 2016

RECONCILIATION OF INCREASE (DECREASE) IN NET ASSETS TO
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:

3250	Increase (decrease) in net assets from operations	\$ (371,644)
	Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities	
6600	Depreciation	738,338
6610	Amortization	3,333
S1200-486	Interest - amortization of debt issuance costs	10,720
S1200-600	Loss on partnership investments	120
S1200-600	Other income - amortization of contra-property account	(9,489)
S1200-600	Loss on disposal of assets	1,498
S1200-600	Grants and contributions restricted for long-term purposes	(6,213)
	Changes in assets and liabilities	
S1200-490	Tenant receivable	(11,097)
S1200-500	Other receivables	13,792
S1200-505	Gifts receivable	(172,717)
S1200-520	Prepaid expenses and deposits	(1,521)
S1200-530	Tenant security deposits	(2,370)
S1200-540	Accounts payable	113,829
S1200-570	Accrued interest payable	(172,929)
S1200-580	Tenant deposits held in trust	566
S1200-590	Prepaid rent	<u>942</u>
S1200-610	Net cash provided (used) by operating activities	<u>\$ 135,158</u>

IMAGINE HOUSING AND AFFILIATES
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

<u>Federal Grantor / Pass-Through Grantor / Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Contract Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>			
<u>Community Development Block Grants/Entitlement Grants</u>			
Passed through the City of Issaquah:			
Andrew's Arms Apartments	14.218	None	\$ 15,286
Passed through King County:			
Ellsworth House	14.218	26120E	47,793
Ellsworth House	14.218	D26707E/F	65,207
Terrace Hill Apartments	14.218	D26124E/F	350,647
Andrew's Glen	14.218	D37860D/H/I	997,388
Highland Gardens	14.218	D22342D	148,231
Passed through the City of Bellevue:			
Terrace Hill Apartments	14.218	None	25,000
Ellsworth House	14.218	None	150,000
Highland Gardens	14.218	None	143,050
Red Vines 1	14.218	None	50,000
Total Community Development Block Grants/Entitlement Grants			<u>1,992,602</u>

IMAGINE HOUSING AND AFFILIATES
Schedule of Expenditures of Federal Awards, Continued
For the Year Ended December 31, 2016

<u>Federal Grantor / Pass-Through Grantor / Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Contract Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Housing and Urban Development, continued</u>			
<u>HOME Investment Partnerships Program</u>			
Passed through State of Washington Department of Commerce:			
Highland Gardens	14.239	95-419-4A	\$ 499,999
Passed through King County:			
Andrew's Heights	14.239	D05659D	445,000
Terrace Hill Apartments	14.239	D26124D	526,635
Andrew's Glen	14.239	D37860E/G	1,353,712
Highland Gardens	14.239	D22106D	<u>950,000</u>
Total HOME Investment Partnerships Program			<u>3,775,346</u>
<u>Section 8 Housing Assistance Payments Program</u>			
Passed through Contract Management Services:			
Ellsworth House	14.195	WA190004002	498,210
Kirkland Plaza	14.195	WA190004013	<u>194,522</u>
Total Section 8 Housing Assistance Payments Program			<u>692,732</u>
Total U.S. Department of Housing and Urban Development			<u>6,460,680</u>

IMAGINE HOUSING AND AFFILIATES
Schedule of Expenditures of Federal Awards, Continued
For the Year Ended December 31, 2016

<u>Federal Grantor / Pass-Through Grantor / Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Contract Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Veterans Affairs</u>			
<u>VA Homeless Providers Grant and Per Diem Program</u>			
Direct Funding:			
Per Diem Funding - Andrew's Glen	64.024	10-753-WA	\$ 260,474
Total VA Homeless Providers Grant and Per Diem Program			<u>260,474</u>
Total U.S. Department of Veterans Affairs			<u>260,474</u>
Total Federal Expenditures			<u>\$ 6,721,154</u>

IMAGINE HOUSING AND AFFILIATES
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) presents the federal grant activity of Imagine Housing and Affiliates, under programs of the federal government for the year ended December 31, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - 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. Pass-through entity identifying numbers are presented where available. Imagine Housing and Affiliates elected to use the 10 percent de minimis indirect cost rate for federal awards made on or after December 26, 2014, and for funding increments (additional funding on existing awards) with modified terms and conditions that are awarded on or after that date.

NOTE C - SUBRECIPIENTS

Of the federal expenditures presented in the Schedule, Imagine Housing and Affiliates provided none of the federal awards to subrecipients.

NOTE D - LOANS AND GRANTS WITH CONTINUING COMPLIANCE REQUIREMENTS

Imagine Housing and Affiliates received the following funding through loans. Loan documents require compliance with program regulations until the maturity date of the loan. The loan balances outstanding at December 31, 2016, are included in the accompanying schedule of expenditures of federal awards and are as follows:

	<u>Loan Number</u>	<u>Maturity Date</u>	<u>Outstanding Loan Balance</u>
<u>U. S. DEPARTMENT OF HOUSING AND</u>			
<u>URBAN DEVELOPMENT</u>			
<u>Community Development Block</u>			
<u>Grants/Entitlement Grants:</u>			
Passed through City of Issaquah			
Andrew's Arms Apartments	None	9/10/2017	\$ 15,286
Passed through King County			
Ellsworth House	26120E	9/1/2049	47,793
	D26707E/F	9/1/2050	65,207
Terrace Hill Apartments	D26124E/F	4/30/2049	350,647
Andrew's Glen	D37860D/H/I	6/30/2061	997,388
Highland Gardens	D22342D	6/30/2017	148,231

IMAGINE HOUSING AND AFFILIATES
Notes to Schedule of Expenditures of Federal Awards, Continued
For the Year Ended December 31, 2016

NOTE D - LOANS AND GRANTS WITH CONTINUING COMPLIANCE REQUIREMENTS,
CONTINUED

	<u>Loan Number</u>	<u>Maturity Date</u>	<u>Outstanding Loan Balance</u>
<u>U. S. DEPARTMENT OF HOUSING AND</u>			
<u>URBAN DEVELOPMENT</u>			
<u>Community Development Block</u>			
<u>Grants/Entitlement Grants, continued:</u>			
Passed through City of Bellevue			
Terrace Hill Apartments	None	4/30/2049	\$ 25,000
Ellsworth House	None	6/1/2050	150,000
Highland Gardens	None	10/14/2056	143,050
30Bellevue	None	8/22/2066	50,000
<u>HOME Investment Partnerships Program:</u>			
Passed through State of Washington Department of Commerce			
Highland Gardens	95-419-4A	12/31/2058	499,999
Passed through King County			
Andrew's Heights	D05659D	9/20/2034	445,000
Terrace Hill Apartments	D26124D	4/30/2049	526,635
Andrew's Glen	D37860E/G	6/30/2061	1,353,712
Highland Gardens	D22106D	12/15/2045	950,000
			<u>\$ 5,767,948</u>

WATSON & McDONELL, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S 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

Board of Directors
Imagine Housing and Affiliates
Kirkland, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Imagine Housing and Affiliates, which comprise the consolidated statement of financial position as of December 31, 2016, 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, and have issued our report thereon dated May 16, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Imagine Housing and Affiliates' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Imagine Housing and Affiliates' internal control. Accordingly, we do not express an opinion on the effectiveness of Imagine Housing and Affiliates' 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. We did identify certain deficiencies in internal control, described in item 2016-01 of the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency.

Compliance and Other Matters

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

Imagine Housing and Affiliate's Response to Findings

Imagine Housing and Affiliate's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Imagine Housing and Affiliate's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Watson & McDowell, PLLC

May 16, 2017

WATSON & McDONELL, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Imagine Housing and Affiliates
Kirkland, Washington

Report on Compliance for Each Major Federal Program

We have audited Imagine Housing and Affiliates' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Imagine Housing and Affiliates' major federal program for the year ended December 31, 2016. Imagine Housing and Affiliates' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Imagine Housing and Affiliates' major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Imagine Housing and Affiliates' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Imagine Housing and Affiliates' compliance.

Opinion on Each Major Federal Program

In our opinion, Imagine Housing and Affiliates complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2016.

Report on Internal Control Over Compliance

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

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

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

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

Watson & McDermott, PLLC

May 16, 2017

IMAGINE HOUSING AND AFFILIATES
 Schedule of Findings and Questioned Costs
 For the Year Ended December 31, 2016

Section I - Summary of Auditor's Results

Financial Statements

The auditor's report expresses an unmodified opinion on the consolidated financial statements of Imagine Housing and Affiliates.

Internal control over financial reporting:

- Material weaknesses identified: _____ Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses: X Yes _____ No

Noncompliance material to financial statements noted: _____ Yes X No

Federal Awards

Internal control over major program:

- Material weaknesses identified: _____ Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses: _____ Yes X No

The auditor's report on compliance for the major federal award program for Imagine Housing and Affiliates expresses an unmodified opinion for the program.

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)? _____ Yes X No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.239	HOME Investment Partnerships Program

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as a low-risk auditee? X Yes _____ No

IMAGINE HOUSING AND AFFILIATES
Schedule of Findings and Questioned Costs, Continued
For the Year Ended December 31, 2016

Section II - Financial Statement Findings:

Finding Identification Number: 2016-01

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting.

Condition: During 2015, the Organization was notified they were the beneficiary of a charitable lead annuity trust. The Organization did not record the receivable and related revenue in 2015.

Cause: The Organization did not have prior experience as a beneficiary of a charitable lead annuity trust. Their unfamiliarity with this type of transaction was compounded by the fact there was an existing pledge from the same donor. The receivable and related revenue from the charitable lead annuity trust were not included in subsidiary ledgers, which contributed to the omission from the 2015 financial statements.

Effect: In the 2015 financial statements assets, net assets and revenue were understated by approximately \$112,000. In the 2016 financial statements, revenue was overstated by approximately \$105,000. Assets and net assets were correctly stated at December 31, 2016.

Recommendation: We recommend management review its internal control over the recording of transactions that are infrequent or unusual to avoid an error of omission.

IMAGINE HOUSING AND AFFILIATES
Schedule of Findings and Questioned Costs, Continued
For the Year Ended December 31, 2016

Section II - Financial Statement Findings, Continued:

Finding Identification Number: 2016-01

Management response: Management has taken steps to increase internal control measures to ensure that infrequent or unusual transactions are recorded in the proper period. As of January 1, 2017, a monthly dashboard was established to record key measurements for the Organization. The dashboard is reviewed at monthly leadership team meetings and is included in the monthly Executive Director report for the Board of Directors. Leadership team meetings will now include an agenda item to discuss any unusual or infrequent transactions that have arisen in the previous month. These transactions will be added to the monthly dashboard and tracked until completion. In addition to tracking unusual items on the monthly dashboard, the accounting department will reconcile donor and financial software on a monthly basis so that no financial transactions are overlooked.

Section III - Federal Award Findings and Questioned Costs

No matters related to federal awards were reported.

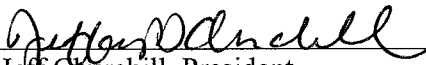
IMAGINE HOUSING AND AFFILIATES
For the Year Ended December 31, 2016

CERTIFICATION OF PROJECT OWNER

We hereby certify that we have examined the accompanying consolidated financial statements and supplementary information of Imagine Housing and Affiliates and, to the best of our knowledge and belief, the same is complete and accurate.

By 
Villette Nolon, Executive Director
Imagine Housing
Taxpayer Identification Number: 94-3110312

5/16/2017
Date

By 
Jeff Churchill, President
Imagine Housing

5/16/2017
Date

IMAGINE HOUSING AND AFFILIATES
For the Year Ended December 31, 2016

MANAGEMENT'S CERTIFICATION

I hereby certify that I have examined the accompanying consolidated financial statements and supplementary information of Imagine Housing and Affiliates and, to the best of my knowledge and belief, the same is complete and accurate.

Property Manager: FPI Management, Inc.

By Sue Bliven
Sue Bliven, Director of Finance
Imagine Housing
Taxpayer Identification Number: 94-3110312

5/16/2017
Date

IMAGINE HOUSING AND AFFILIATES
For the Year Ended December 31, 2016

AUDITOR'S TRANSMITTAL LETTER

S3200-005	Audit Firm ID (UII)	57080
S3200-010	Audit Firm	Watson & McDonell, PLLC
S3200-020	Lead Auditor First Name	Lillian
S3200-040	Lead Auditor Last Name	McDonell
S3200-045	Auditor Contact Title	Managing Member
S3200-050	Auditor Street Address Line 1	1325 Fourth Avenue
S3200-060	Auditor Street Address Line 2	Suite 1705
S3200-070	Auditor City	Seattle
S3200-080	Auditor State	Washington
S3200-090	Auditor Zip Code	98101
S3200-100	Auditor Zip Code Extension	3301
S3200-110	Telephone Number	206-624-2380
S3200-120	Audit Firm TIN	72-1607347
S3200-130	Date of Independent Auditor's Report	May 16, 2017