



HOMEOWNERSHIP CENTER OF TACOMA

**FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION**

Years Ended June 30, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

October 30, 2018

To the Board of Directors of
Homeownership Center of Tacoma
Tacoma, Washington

Report on the Financial Statements

I have audited the accompanying financial statements of Homeownership Center of Tacoma (a nonprofit organization) which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Homeownership Center of Tacoma as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

My audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of revenues and expenses by funding source on page 14 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Mary Jane Dubbs
Certified Public Accountant
University Place, Washington

HOMEOWNERSHIP CENTER OF TACOMA
STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets		
Cash and cash equivalents	363,100	325,693
Prepaid expenses	8,783	2,614
Accounts receivable	192,966	-
Grants receivable	-	96,348
Construction in process	674,062	948,845
Real estate held for sale	-	553,209
Total current assets	<u>1,238,911</u>	<u>1,926,709</u>
Property and equipment		
Furniture and equipment	28,924	28,924
Building	99,359	99,359
Land	42,173	42,173
Less: accumulated depreciation	<u>(81,182)</u>	<u>(76,362)</u>
Total property and equipment	89,274	94,094
Other assets		
Notes receivable	959,229	1,023,729
Land held for development	200,885	269,750
Total other assets	<u>1,160,114</u>	<u>1,293,479</u>
TOTAL ASSETS	<u><u>2,488,299</u></u>	<u><u>3,314,282</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	35,420	17,936
Accrued expenses	33,698	22,991
Deferred revenue	13,581	13,581
Notes payable	-	515,594
Current portion of long-term debt	9,194	8,108
Total current liabilities	<u>91,893</u>	<u>578,210</u>
Long term debt, net of current portion	<u>1,356,495</u>	<u>1,262,384</u>
TOTAL LIABILITIES	1,448,388	1,840,594
Net assets		
Without donor restrictions	418,347	852,124
With donor restrictions	621,564	621,564
TOTAL NET ASSETS	<u>1,039,911</u>	<u>1,473,688</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>2,488,299</u></u>	<u><u>3,314,282</u></u>

HOMEOWNERSHIP CENTER OF TACOMA
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND OTHER REVENUES						
Support:						
Grants	120,350	-	120,350	874,044	-	874,044
Contributions	3,018	-	3,018	5,169	-	5,169
Revenue:						
Property sales	1,125,000	-	1,125,000	890,000	-	890,000
Developer fees	150,000	-	150,000	125,000	-	125,000
Other income	1,810	-	1,810	2,725	-	2,725
Valuation adjustment	51,382	-	51,382	-	-	-
TOTAL SUPPORT AND OTHER REVENUES	1,451,560	-	1,451,560	1,896,938	-	1,896,938
EXPENSES						
Program Services:						
Housing development	1,433,545	-	1,433,545	1,095,229	-	1,095,229
Mortgage lending	2,008	-	2,008	4,153	-	4,153
Client service	138,745	-	138,745	127,283	-	127,283
Total program services	1,574,298	-	1,574,298	1,226,665	-	1,226,665
Support Services:						
General and administrative	311,039	-	311,039	300,505	-	300,505
TOTAL EXPENSES	1,885,337	-	1,885,337	1,527,170	-	1,527,170
CHANGES IN NET ASSETS	(433,777)	-	(433,777)	369,768	-	369,768
NET ASSETS, BEGINNING OF YEAR	852,124	621,564	1,473,688	482,356	621,564	1,103,920
NET ASSETS, END OF YEAR	418,347	621,564	1,039,911	852,124	621,564	1,473,688

HOMEOWNERSHIP CENTER OF TACOMA
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2018 and 2017

	2018					2017				
	Program Services			General and administrative	Total	Program Services			General and administrative	Total
	Housing Development	Mortgage Lending	Client Service			Housing Development	Mortgage Lending	Client Service		
Development costs	1,403,461	-	-	-	1,403,461	1,071,511	-	-	-	1,071,511
Closing costs	30,084	-	-	-	30,084	23,718	-	-	-	23,718
Salaries and wages	-	-	116,179	218,635	334,814	-	-	107,953	208,953	316,906
Employee benefits	-	-	12,057	24,761	36,818	-	-	8,834	24,658	33,492
Payroll taxes	-	-	10,509	18,895	29,404	-	-	9,067	17,306	26,373
Professional services	-	2,008	-	9,810	11,818	-	4,153	1,429	9,650	15,232
Office expense	-	-	-	12,720	12,720	-	-	-	13,065	13,065
Telephone	-	-	-	5,257	5,257	-	-	-	5,335	5,335
Occupancy	-	-	-	13,487	13,487	-	-	-	14,504	14,504
Interest expense	-	-	-	2,653	2,653	-	-	-	2,213	2,213
Depreciation	-	-	-	4,821	4,821	-	-	-	4,821	4,821
Total	1,433,545	2,008	138,745	311,039	1,885,337	1,095,229	4,153	127,283	300,505	1,527,170

HOMEOWNERSHIP CENTER OF TACOMA
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from revenues	733,255	859,991
Cash payments for expenses:		
Suppliers and employees	(464,922)	(501,534)
Home developing	(278,611)	(193,621)
Interests	<u>(2,653)</u>	<u>(2,212)</u>
Net cash provided (used) by operating activities	(12,931)	162,624
CASH FLOWS FROM INVESTING ACTIVITIES		
Collection of notes receivable	64,500	105,940
Payment for land held for development	(8,036)	(9,154)
Purchase of equipment	<u>-</u>	<u>(1,221)</u>
Net cash provided by investing activities	56,464	95,565
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowings	104,000	-
Payment on long-term borrowings	(8,051)	(8,403)
Payment on short-term borrowings	<u>(102,075)</u>	<u>(15,209)</u>
Net cash used by financing activities	<u>(6,126)</u>	<u>(23,612)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	37,407	234,577
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>325,693</u>	<u>91,116</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>363,100</u></u>	<u><u>325,693</u></u>
Supplemental Disclosures		
Notes issued on homes purchased	-	(148,800)
Notes satisfied by homes sold	414,271	219,162
Debts settled by grants	-	137,211

HOMEOWNERSHIP CENTER OF TACOMA NOTES TO FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

History of Organization

Homeownership Center of Tacoma (the Organization) is a Washington not-for-profit organization established in Washington in 1993 to foster neighborhood revitalization through homeownership.

Nature of Activities

Its primary objectives are to construct and rehabilitate single family unit homes and to sell them to first-time homebuyers in selected target neighborhoods of Tacoma, Washington. The Organization also provides a full range of homeownership counseling and buyer assistance to help low and moderate-income homebuyers become successful in obtaining homes.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The Organization has implemented early adoption of ASU 2016-14 during the year that presents classes of net assets as follows:

- *Without donor restrictions:* Net Assets that are not subject to donor-imposed stipulations. The Board may elect to designate such net assets for specific purposes or to function as endowment. This designation may be removed at the Board's discretion.
- *With donor restrictions:* Net assets that are subject to donor-imposed purpose or time restrictions.

Accordingly, a prior period adjustment was made to reclassify unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets as net assets with donor restrictions and net assets without donor restrictions depending on the presence or absence of donor-imposed restrictions.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Fair Value Disclosures

The fair value of financial instruments including cash and cash equivalents, receivables and payable approximates the carrying values, principally because of the short maturity of those items.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Organization considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents.

HOMEOWNERSHIP CENTER OF TACOMA
NOTES TO FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Property and Equipment

The Organization capitalizes all expenditures for property and equipment in excess of \$5,000. Purchased property and equipment are carried at cost. Donated property and equipment are carried at fair value at the date of donation. Depreciation is computed using the straight-line method based on an estimated useful life.

Accounting for Grants

Cost reimbursement grant revenues are recorded as revenue at the time allowable expenses are incurred. Amounts due for reimbursement of allowable costs but not received are recorded as a receivable.

Restricted and Unrestricted Support

Donor-restricted support is reported as an increase in net assets with donor restrictions. When restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with restrictions are reclassified to net assets without restrictions and reported in the statements of activities as net assets released from restrictions.

Income Taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code except on net income derived from unrelated business activities. The Organization had no unrelated business activities. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

The Organization's federal information returns are subject to possible examination by the taxing authorities until the expiration of related statutes of limitations on those tax returns, which is generally three years.

NOTE B – DESCRIPTION OF PROGRAM AND SUPPORTING SERVICES

The following programs and supporting services are included in the accompanying financial statements:

Program Services:

The Organization offers newly constructed or rehabilitated homes to modest-income home buyers where the monthly payment is tailored to the household's income. The Organization also provides a full range of homeownership counseling and buyer assistance to help low and moderate-income homebuyers become successful in obtaining homes.

Management and General:

Includes the functions necessary to maintain an equitable employment program; ensure an adequate working environment; provide coordination and articulation of the Organization's program strategy; secure proper administrative functioning of the Board of Directors; and manage the financial and budgetary responsibilities of the Organization.

**HOMEOWNERSHIP CENTER OF TACOMA
NOTES TO FINANCIAL STATEMENTS**

NOTE C – HOMES UNDER CONSTRUCTION AND HELD FOR SALE

The costs of homes held at financial position date are classified as real estate held for sale, construction in progress or land held for development depending on the project status. Sold units are charged to housing development using specific identification method.

The projects as of June 30, 2018, stated at lower of cost or market, consist of:

	Construction in process	Real estate held for sale	Land held for development	Total
Number of units	4	-	4	8
Historical Cost	680,747	-	277,786	958,533
Estimated loss when sold	(6,685)	-	(76,901)	(83,586)
Net realizable value	<u>674,062</u>	<u>-</u>	<u>200,885</u>	<u>874,947</u>

The projects as of June 30, 2017, stated at lower of cost or market, consist of:

	Construction in process	Real estate held for sale	Land held for development	Total
Number of units	8	3	4	15
Historical Cost	1,083,813	553,209	269,750	1,906,772
Estimated loss when sold	(134,968)	-	-	(134,968)
Net realizable value	<u>948,845</u>	<u>553,209</u>	<u>269,750</u>	<u>1,771,804</u>

A summary of activity in homes under construction and building lots for the year ended June 30, 2018 are as follows:

Balance June 30, 2017	1,771,804
Cost of development	455,222
Cost of homes sold	(1,403,461)
Valuation adjustment	<u>51,382</u>
Balance June 30, 2018	<u>874,947</u>

NOTE D – NOTES RECEIVABLE

Notes receivable are comprised of second and third mortgages held to assist in the affordability of homes to homebuyers. These notes are long-term and repayment does not begin until the first mortgage is paid. The notes earn no interest, and are secured by second and third liens on the property. No allowance for loan loss has been reserved at June 30, 2018 and 2017.

**HOMEOWNERSHIP CENTER OF TACOMA
NOTES TO FINANCIAL STATEMENTS**

NOTE E – NOTES PAYABLE

The Organization utilizes short-term construction loans from banks, which are due within one year after sale of houses. The notes are collateralized by the construction in process and bear interests at 4.5% to 5.25%, with interest due monthly. The construction loans had a balance of \$103,247 and \$515,594 as of June 30, 2018 and 2017, respectively.

The note at June 30, 2018 had been subsequently extended to mature on September 15, 2019, and therefore reported in long-term debt.

NOTE F – LONG TERM DEBT

Long term debts at June 30, consist of:

	2018	2017
No- interest revolving loan fund, State of Washington, Department of Community Development - Affordable Housing Program, due within 45 days of program discontinuance or on January 1, 2045, renewable in five year increments	600,000	600,000
No-interest revolving fund, City of Tacoma/U.S. Department of Housing and Urban Development - HOME Investment Partnership Agreement, due on January 1, 2045	626,678	626,678
Variable interest bank note secured by office building, monthly payment of interest and principal of \$885, balance due on January 28, 2022.	35,764	43,814
6% bank loan secured by development projects, no monthly payments, balance due on September 30, 2019	103,247	-
Total	1,365,689	1,270,492
Less: Current portion	(9,194)	(8,108)
Net long-term debt	1,356,495	1,262,384

Future maturities of the notes are as follows:

Year ending June 30,		
2019	9,194	
2020	112,864	
2021	10,058	
2022	6,894	
2023	-	
Thereafter	1,226,678	
	1,365,689	

HOMEOWNERSHIP CENTER OF TACOMA
NOTES TO FINANCIAL STATEMENTS

NOTE F – LONG TERM DEBT – (Continued)

The HOME Investment Partnership Agreement requires the Organization to establish a Revolving Loan Fund for the purpose of receiving and accounting for the repayment of principal and interest on loans funded from the program. The proceeds from the sale of property and any income derived from the deposits, investment or use of such funds shall be deposited in the Revolving Loan Fund. The Organization did not maintain the revolving fund for a fund deficit of \$454,978 and \$0 for the year ended June 30, 2018 and 2017, respectively.

NOTE G – COMMITMENTS

In 1998, the Organization received \$920,000 State funds for the development of rehabilitated or new construction homes that will assist twenty (20) low-income first time homebuyers to purchase homes in the Hilltop neighborhood of Tacoma. The Organization has a 30-year commitment to use the funds under the terms of the agreement which will expire on June 30, 2030. The Organization recognized the forgivable loan as grants income during the period received since the Organization has no plan to default on any of the loan terms.

In a related agreement, the Organization received \$460,000 State funds for down-payment assistance to twenty (20) homebuyers. The Organization has a 30-year commitment to use the funds under the terms of the agreement which will expire on June 30, 2032. The Organization recognized the forgivable loan as grants income during the period received since the Organization has no plan to default on any of the loan terms.

In 2006 and 2007, the Organization received a total amount of \$480,000 State funds as construction grant. When the homes are sold, the funds are required to be recaptured into a revolving loan fund. There is no repayment required if the Organization is in compliance with the terms and condition of the contract.

Under the above agreements, the Organization is required to deposit proceeds from loan payoffs, interests or shared appreciation paid to the Organization into a revolving loan fund to assist additional low income homebuyers by providing funding for similar costs, including down payment and closing cost assistance loans. The Organization is also required to designate a specific account in its accounting system for the revolving fund and shall provide annual reports of its balance and activity. The Organization did not maintain the loan revolving fund or a fund deficit of \$825,863 and \$761,363 for the year ended June 30, 2018 and 2017, respectively.

NOTE H – CONCENTRATION OF CREDIT RISK

The Organization maintains its cash balances in financial institutions located in Pierce County. Such balances may from time to time exceed federally insured limits. The Organization has not incurred any losses from such uninsured balances. The Organization had uninsured balances of \$34,836 at June 30, 2018, while there were no uninsured balances at June 30, 2017.

HOMEOWNERSHIP CENTER OF TACOMA
NOTES TO FINANCIAL STATEMENTS

NOTE I – FINANCIAL ASSETS

As of June 30, 2018 and 2017, the Organization has a working capital of \$1,141,528 and \$1,343,280, respectively.

Financial assets available for general expenditure within one year at June 30, 2018, consist of:

Cash and cash equivalents	363,100
Accounts receivable	192,966
	556,066

As part of Homeownership Center of Tacoma’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Organization obtained an advised guidance line of \$900,000, from which it could draw upon for its housing development costs. Each draw from the guidance line will be covered by a mortgage note secured by real estate.

NOTE J – NET ASSETS CLASSIFICATIONS

On August 18, 2016, the FASB issued ASU 2016-14, *Not for Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities*. Homeownership Center of Tacoma adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative period presented. The new standards change the following aspects of Homeownership Center of Tacoma’s financial statements:

- The permanently restricted net assets class has been renamed net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions
- The format of cash flows has changed to the direct method of reporting cash flows from operations, which we believe to be more understandable for the users of our financial statements.
- The financial statements include a new disclosure about liquidity and availability of resources (note)

The changes have the following effect on net assets at June 30, 2017:

	As originally presented	After adoption of ASU 2016-14
Unrestricted net assets	852,124	
Permanently restricted net assets	621,564	
Net assets without donor restrictions	-	852,124
Net assets with donor restrictions	-	621,564

**HOMEOWNERSHIP CENTER OF TACOMA
NOTES TO FINANCIAL STATEMENTS**

NOTE K – NET ASSETS WITH DONOR RESTRICTIONS

The net assets with donor restrictions at June 30, 2018 and 2017 were for the following purposes:

	<u>2018</u>	<u>2017</u>
Specific purpose:		
Perpetual revolving loan fund	621,564	621,654

NOTE L – SUBSEQUENT EVENTS

Subsequent events were evaluated through October 30, 2018, which is the date the financial statements were available to be issued. There were no subsequent events that are material to the financial statements.

SUPPLEMENTARY INFORMATION

HOMEOWNERSHIP CENTER OF TACOMA
SCHEDULE OF REVENUES AND EXPENSES BY FUNDING SOURCE
Year Ended June 30, 2018

	Funding Source			Total
	State of Washington	Home Fund	Other	
Revenues	703,720	-	624,472	1,328,192
Contributions	-	120,350	3,018	123,368
	<u>703,720</u>	<u>120,350</u>	<u>627,490</u>	<u>1,451,560</u>
Expenses				
Housing development	689,388	120,350	623,807	1,433,545
Mortgage Lending	-	-	2,008	2,008
General and administrative				
Salaries and wages	-	-	334,814	334,814
Employee benefits	-	-	36,818	36,818
Payroll taxes	-	-	29,404	29,404
Professional services	-	-	9,810	9,810
Office expense	-	-	12,720	12,720
Telephone	-	-	5,257	5,257
Occupancy	-	-	13,487	13,487
Interest expense	-	-	2,653	2,653
Depreciation	-	-	4,821	4,821
Total expenses	<u>689,388</u>	<u>120,350</u>	<u>1,075,599</u>	<u>1,885,337</u>
Increase in net assets	<u>14,332</u>	<u>-</u>	<u>(448,109)</u>	<u>(433,777)</u>