

INNOVATIVE HOUSING, INC. AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017



Loveridge Hunt & Co., PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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Loveridge Hunt & Co., PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

Board of Directors
Innovative Housing, Inc. and Affiliates
Portland, Oregon

Report on Financial Statements

We have audited the accompanying financial statements of Innovative Housing, Inc. and Affiliates (the Organization), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year 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 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 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 Organization'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 Organization'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.

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Innovative Housing, Inc. and Affiliates as of June 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Innovative Housing, Inc. and Affiliates 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 19, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The additional information shown on pages 26 to 34 is presented for the purpose 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 audits 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 December 17, 2018, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 the Organization's internal control over financial reporting and compliance applicable to 2018.


Loveridge Hunt
Bellevue, Washington
December 17, 2018

INNOVATIVE HOUSING, INC. AND AFFILIATES
(A Not-For-Profit Corporation)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30,	
	2018	2017
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 3,880,017	\$ 4,872,125
Cash - restricted reserves	1,535,510	1,306,382
Prepaid expenses	89,106	79,548
Accounts receivable:		
Management fees	25,000	25,000
Development fees	1,098,711	728,190
Deposits in transit	-	1,166,140
Other	67,090	43,879
Investments	<u>3,293,630</u>	<u>2,293,109</u>
	9,989,064	10,514,373
Tenant trust - security deposits	<u>295,697</u>	<u>237,585</u>
Property, leasehold improvements and equipment, at cost:		
Building, leasehold improvements and equipment	31,243,620	24,215,010
Accumulated depreciation	<u>(8,938,300)</u>	<u>(7,870,668)</u>
	22,305,320	16,344,342
Construction in progress	1,092,319	54,486
Land	<u>5,193,328</u>	<u>3,645,427</u>
	28,590,967	20,044,255
Other assets:		
Notes receivable - partnerships	14,409,538	14,165,751
Notes receivable - shared appreciation mortgages	41,835	41,835
Investment in limited partnerships	<u>945,257</u>	<u>887,702</u>
	<u>15,396,630</u>	<u>15,095,288</u>
	<u>\$ 54,272,358</u>	<u>\$ 45,891,501</u>

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INNOVATIVE HOUSING, INC. AND AFFILIATES
(A Not-For-Profit Corporation)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - (CONTINUED)

	June 30,	
	2018	2017
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 276,845	\$ 180,780
Current portion of notes payable	<u>2,298,397</u>	<u>326,819</u>
	2,575,242	507,599
Other liabilities:		
Security deposits payable	298,379	238,251
Deferred liabilities and prepaid rent	<u>13,122</u>	<u>12,724</u>
	<u>311,501</u>	<u>250,975</u>
Long-term debt:		
Notes payable, net of current portion	<u>28,321,423</u>	<u>24,345,831</u>
Total liabilities	31,208,166	25,104,405
Net assets:		
Unrestricted	18,167,973	15,659,798
Temporarily restricted	<u>4,896,219</u>	<u>5,127,298</u>
Total net assets	<u>23,064,192</u>	<u>20,787,096</u>
	<u>\$ 54,272,358</u>	<u>\$ 45,891,501</u>

The accompanying notes are an integral part of these financial statements.

Innovative Housing, Inc. and Affiliates
(A Not-For-Profit Corporation)

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2018 (With Comparative Totals for 2017)

	2018			2017
	Unrestricted	Temporarily Restricted	Total	
Support and Revenue:				
Grants and contributions	\$ 1,318,512	\$ -	\$ 1,318,512	\$ 82,205
Partnership and asset management fees	153,562	-	153,562	140,812
Property development fees	612,297	-	612,297	200,000
Rental income	4,883,602	-	4,883,602	4,111,371
Resident services fees	101,250	-	101,250	99,098
Interest income	505,294	-	505,294	456,266
Sale of property	-	-	-	955,654
Other	<u>343,812</u>	<u>-</u>	<u>343,812</u>	<u>190,966</u>
	7,918,329	-	7,918,329	6,236,372
Expenses:				
Program services:				
Asset management	199,011	-	199,011	185,705
Resident services	441,791	-	441,791	377,731
Housing development	264,535	-	264,535	261,499
Property ownership	<u>4,573,938</u>	<u>-</u>	<u>4,573,938</u>	<u>3,810,048</u>
	5,479,275	-	5,479,275	4,634,983
Supporting services:				
Management and general	113,724	-	113,724	99,041
Communication	21,031	-	21,031	35,308
Fundraising	<u>27,203</u>	<u>-</u>	<u>27,203</u>	<u>47,560</u>
	<u>5,641,233</u>	<u>-</u>	<u>5,641,233</u>	<u>4,816,892</u>
Change in net assets from operations	\$ <u>2,277,096</u>	\$ <u>-</u>	\$ <u>2,277,096</u>	\$ <u>1,419,480</u>
Gain (loss) from interests in limited partnerships	-	-	-	(190,627)
Net assets released from restrictions	231,079	(231,079)	-	

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Innovative Housing, Inc. and Affiliates
(A Not-For-Profit Corporation)

CONSOLIDATED STATEMENT OF ACTIVITIES - (CONTINUED)

For the Year Ended June 30, 2018 (With Comparative Totals for 2017)

	2018			2017
	Unrestricted	Temporarily Restricted	Total	
Change in net assets	\$ 2,508,175	\$ (231,079)	\$ 2,277,096	\$ 1,228,853
Net assets - beginning of year	15,659,798	5,127,298	20,787,096	19,558,243
Net assets - end of year	\$ 18,167,973	\$ 4,896,219	\$ 23,064,192	\$ 20,787,096

The accompanying notes are an integral part of these financial statements.

Innovative Housing, Inc. and Affiliates
CONSOLIDATED STATEMENT
OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2018 (With Comparative Totals for 2017)

	For the Year Ended June 30, 2018									2018 Total	2017 Total
	Program Services					Supporting Services					
	Asset Management	Resident Services	Housing Development	Property Ownership	Total Programs	Management and General	Communic.	Fundraising			
Payroll	\$ 135,544	\$ 274,928	\$ 203,222	\$ -	\$ 613,694	\$ 48,452	\$ 12,562	\$ 12,708	\$ 687,416	\$ 665,724	
Payroll taxes	11,223	25,443	16,507	-	53,173	4,041	1,011	1,011	59,236	56,084	
Health benefits	10,949	37,223	15,055	-	63,227	1,369	548	548	65,692	64,565	
Retirement	6,170	8,598	11,228	-	25,996	1,737	692	678	29,103	27,309	
Grants and contributions expense	-	-	-	39,095	39,095	-	-	-	39,095	3,745	
Travel, training	848	2,672	954	-	4,474	509	191	127	5,301	8,563	
Printing	539	1,699	607	-	2,845	324	121	81	3,371	4,426	
Telephone & utilities	1,319	4,155	1,484	-	6,958	791	297	198	8,244	8,566	
Rent/occupancy	4,406	13,880	4,957	-	23,243	2,644	991	661	27,539	29,949	
Dues & subscriptions	778	2,452	876	-	4,106	467	175	117	4,865	11,295	
Professional fees & consultants	3,626	1,133	4,080	-	8,839	12,466	816	544	22,665	16,675	
Supplies	857	2,700	964	-	4,521	514	193	129	5,357	5,017	
Insurance	1,288	4,057	1,449	-	6,794	773	290	193	8,050	8,234	
Postage & shipping	79	248	89	-	416	47	18	12	493	990	
Depreciation & amortization	-	-	-	1,087,017	1,087,017	-	-	-	1,087,017	924,699	
Special events	-	-	-	-	-	-	-	9,809	9,809	11,201	
Interest expense	-	-	-	689,668	689,668	-	-	-	689,668	515,473	
Equipment rental & maintenance	2,583	8,130	2,904	513,996	527,613	1,549	576	387	530,125	373,981	
Direct program expenses	<u>18,802</u>	<u>54,473</u>	<u>159</u>	<u>2,244,162</u>	<u>2,317,596</u>	<u>38,041</u>	<u>2,550</u>	<u>-</u>	<u>2,358,187</u>	<u>2,080,396</u>	
Total	<u>\$ 199,011</u>	<u>\$ 441,791</u>	<u>\$ 264,535</u>	<u>\$ 4,573,938</u>	<u>\$ 5,479,275</u>	<u>\$ 113,724</u>	<u>\$ 21,031</u>	<u>\$ 27,203</u>	<u>\$ 5,641,233</u>	<u>\$ 4,816,892</u>	

The accompanying notes are an integral part of these financial statements.

Innovative Housing, Inc. and Affiliates
(A Not-For-Profit Corporation)

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2018 and 2017
Increase (Decrease) in Cash

	June 30,	
	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 2,277,096	\$ 1,228,853
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,067,632	896,535
Amortization of debt issuance costs	19,385	28,164
Unrealized (gain)/loss from investments	-	(150,051)
Non cash charitable contributions	(1,094,158)	-
Changes in certain assets and liabilities:		
Prepaid expenses	(9,558)	(5,240)
Accounts receivable	772,408	(721,200)
Accounts payable	96,064	(95,499)
Security deposits	2,016	29
Prepaid rent	<u>398</u>	<u>(4,894)</u>
Net cash provided by operating activities	3,131,283	1,176,697
Cash flows from investing activities:		
Purchase buildings, leasehold improvements and equipment	(7,482,353)	(48,126)
Repayment of advances on CIP	-	450,760
Payments for construction-in-progress	(941,641)	(41,674)
Purchase of investments	(1,000,521)	-
Notes receivable - partnerships	(243,787)	(203,802)
Notes receivable - shared appreciation mortgages	-	34,908
Contributions to partnerships	(57,555)	-
Deposits to restricted reserves	(229,128)	-
Withdrawals from restricted reserves	<u>-</u>	<u>119,121</u>
Net cash provided (used) by investing activities	\$ (9,954,985)	\$ 311,187

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Innovative Housing, Inc. and Affiliates
(A Not-For-Profit Corporation)

CONSOLIDATED STATEMENTS OF CASH FLOWS - (CONTINUED)
For the Years Ended June 30, 2018 and 2017
Increase (Decrease) in Cash

	June 30,	
	2018	2017
Cash flows from financing activities:		
Proceeds from notes payable	6,415,032	-
Principal payments on notes payable	(583,438)	(778,961)
Net cash provided (used) by financing activities	5,831,594	(778,961)
Net increase (decrease) in cash	(992,108)	708,923
Cash, beginning of year	4,872,125	4,163,202
Cash, end of year	\$ 3,880,017	\$ 4,872,125
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 682,380	\$ 515,473
Supplemental schedule of noncash investing and financing activities:		
Increase in fixed assets from		
Non cash charitable contributions	\$ 1,094,158	\$ -

The accompanying notes are an integral part of these financial statements.

Innovative Housing, Inc. and Affiliates
(A Not-For-Profit Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ACTIVITIES

Innovative Housing, Inc. (IHI) is a nonprofit organization that develops, preserves and operates affordable housing for low-income households. IHI complements its housing with a Resident Services Program designed to help residents maintain their housing stability, improve their quality of life and break the cycle of poverty. IHI's affiliates include Bridgeview Housing LLC, 82nd & Broadway LLC, IHI/Musolf LLC, Hewitt Place II GP LLC, ITH Inc., IHI/Clifford LLC, Innovative Rich LLC, 527 SE Morrison MT LLC, Clifford Apartments, LLC, Innovative Eliot LLC, Innovative Erickson LLC, Innovative Woodland Square LLC, Innovative Center Village, LLC, Innovative KWVS LLC, Innovative Raleigh LLC, Innovative Fargo LLC, Innovative Garden Park LLC, Innovative Cambrian LLC, and Innovative Merwyn LLC. Information about the separate assets, liabilities, and business operations of these various distinct legal entities can be found in the Additional Information at the end of these consolidated statements. As each of IHI's affiliates are distinct, single purpose entities, the assets and credit of any individual entity are not available to satisfy the debts of any other such entity or any other person. IHI and its affiliates are referred to throughout the notes as "IHI".

IHI's four major program areas include:

Housing Development - IHI creates and preserves affordable housing through new construction and the acquisition/rehabilitation of existing multifamily properties and historic buildings. IHI's rental housing serves low and very low-income families and individuals, seniors, people with disabilities, formerly homeless people, veterans, and households escaping domestic violence. The average income level of IHI's residents in 2017 was 30% of area median income, or \$15,690 per year for an individual and \$22,410 per year for a family of four. In fiscal year 2017-18, IHI continued the construction of Vibrant!, a new 93-unit family development at NW 14th/Raleigh in Portland, and continued with predevelopment work for 50 new family units adjacent to the Magnolia Apartments (referred to as Magnolia 2). In 2017-18 IHI also acquired the Cambrian, a 34-unit vintage apartment building in downtown Portland, and worked with Oregon's Department of Environmental Quality to finalize a Prospective Purchaser's Agreement related to the acquisition of an historic hotel in Astoria, Oregon.

Resident Services - IHI complements its housing with Resident Services designed to help residents maintain their housing stability, improve their quality of life, and break the cycle of poverty. Resident service staff connect residents with existing community resources and service providers, advocate for residents, sponsor community building activities, coordinate on-site classes and workshops, and offer site-based programs including an Eviction Prevention Program, Financial Education, an Emergency Fund, and a comprehensive Youth and Family Program.

Asset Management - At the end of FY 2018, IHI is the managing general partner or managing member of eight unaffiliated Limited Partnerships/Limited Liability Companies that own 817 affordable rental units in Oregon and Washington. IHI manages this portfolio to ensure that each property is well-maintained, financially sustainable and makes a positive contribution to its neighborhood. Asset management includes hiring and supervising professional property managers, compliance, reporting, handling audits/tax matters and structuring/refinancing debt. In fiscal year 2017-18 the Springtree Apartments in Portland, OR and the Quail Run Apartments, in Vancouver, WA, were both sold to unrelated parties and exited IHI's portfolio.

Innovative Housing, Inc. and Affiliates
(A Not-For-Profit Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ACTIVITIES - CONTINUED

Property Ownership - In addition to managing affordable properties owned by unaffiliated LP/LLCs, IHI or wholly controlled affiliates own 515 affordable rental units at 11 Portland area properties. As such, the operating expenses for these properties are included in IHI's financial statements. During FY 2017-18, IHI acquired full ownership interest of the Garden Park Apartments and secured funding to perform a substantial rehabilitation to one of our wholly owned properties, the Center Village Apartments. IHI will close on tax credit financing in January, 2019, shifting this property back into an unaffiliated Limited Partnership for the next 15 years.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND SUBSEQUENT EVENT

Principles of Consolidation

The consolidated financial statements include the accounts of Innovative Housing, Inc., 82nd & Broadway LLC, Bridgeview Housing LLC, Clifford Apartments LLC, Hewitt Place II GP LLC, IHI/Musolf LLC, Innovative Cambrian LLC, Innovative Center Village LLC, Innovative Garden Park, Innovative KWVS LLC, Innovative Rich LLC, Innovative Woodland Square LLC, and ITH Inc. All entities are single member LLCs wholly controlled by IHI. All material inter-organization transactions have been eliminated.

Financial Statements

The financial statements are presented in accordance with Accounting Standards Codification 958, formerly Statement of Financial Accounting Standards No. 117, Financial Statements of Not-For-Profit Organizations, which requires the Organization to report information regarding its financial position and activities according to three classes of net position: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Change in Accounting Principle

Effective June 30, 2017, IHI retrospectively adopted the provisions of ASU No. 2015-03 ("ASU 2015-03"), *Simplifying the Presentation of Debt Issuance Costs* (Loan fees). ASU 2015-03 requires that debt issuance (loan) costs related to a recognized debt liability be presented in the statements of net position as a direct deduction from the carrying amount of that debt liability and amortization of debt issuance costs be reported as interest expense. See Note 8 for additional information. The adoption of ASU 2015-03 did not affect IHI's net assets, statements of activities, or cash flows for the years ended June 30, 2018 or 2017.

Debt issuance costs are amortized over the period the obligation is outstanding using the straight-line method. This does not result in a significant difference from the effective interest rate method.

Method of Accounting

The accrual method of accounting is used for financial statement purposes in accordance with generally accepted accounting principles.

Innovative Housing, Inc. and Affiliates
(A Not-For-Profit Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING PRINCIPLES AND SUBSEQUENT EVENT- (CONTINUED)

Cash and Cash Equivalents

For purposes of the statement of cash flows, all investment instruments purchased with a maturity of three months or less are considered to be cash equivalents. At June 30, 2018 cash and cash equivalents totaling \$3,880,017 were held by Innovative Housing, Inc. At June 30, 2017, cash and cash equivalents totaled \$4,872,125.

Financial Instruments

All financial instruments are carried at amounts that approximate fair value.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Concentration of Credit Risk

IHI maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. IHI has not experienced any losses in such accounts. Management believes that IHI is not exposed to any significant credit risk on cash and cash equivalents.

Investment in Property and Equipment

All expenditures for land, land improvements, buildings and equipment are capitalized at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the individual assets: 27.5 to 30 years for buildings, 7 to 15 years for land improvements, and 5 to 7 years for furnishings and equipment. For the years ended June 30, 2018 and 2017, depreciation expense was \$1,067,632 and \$896,535, respectively. Improvements, additions and replacements in excess of \$5,000 are generally 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. The resulting gains and losses are reflected in the statement of operations.

Management reviews investments in property and equipment for possible impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. Management believes no such adjustment is required in the financial statements as of June 30, 2018 or 2017, respectively.

Advertising Expenses

Advertising costs are charged to expense as they are incurred.

Income Tax Status

Except for ITH, Inc., IHI is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, no taxes have been provided for in the financial statements.

Innovative Housing, Inc. and Affiliates
(A Not-For-Profit Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING PRINCIPLES AND SUBSEQUENT EVENT - (CONTINUED)

Revenue Recognition

Developer fees are earned on housing projects developed for affiliates or related entities (limited partnerships or limited liability companies in which IHI, through its affiliates, is either the general partner or the managing member). Revenue from developer fees is recognized as earned during the development period of the project.

Accounts Receivable

Management fees receivable represents amounts due from multi-family housing projects (limited partnerships or limited liability companies) in which IHI owns varying percentages, up to 1 percent. Accounts receivable are reported at the amount management expects to collect on balances outstanding at June 30, 2018 and 2017. Management closely monitors outstanding balances and writes off all balances deemed uncollectible. No allowance was deemed necessary as all receivables are deemed fully collectible. In June 2017 Innovative Commons LLC (owned by IHI) sold an option to purchase certain property (located at 5800 Northeast Center Commons Way Portland, OR). Closing occurred in June 2017, however proceeds of the sale were not received until after June 30, 2017. As a result, the \$1,166,140 net proceeds from the sale were classified as accounts receivable.

Reclassification

Certain amounts as previously presented have been reclassified to conform with the current year presentation.

Basis of Presentation

Net assets and all balances are presented based on the existence of donor-imposed restrictions. The net assets and changes in net assets are classified as follows:

Unrestricted net assets - Net assets not subject to donor-imposed restrictions.

Temporarily restricted net assets - Net assets subject to donor-imposed restrictions that will be met either by the actions of IHI or by the passage of time. Temporarily restricted contributions are classified as unrestricted where the restriction is met in the same fiscal year the contribution is received. See Note 9.

Permanently restricted net assets - Net assets subject to donor-imposed restrictions that they be maintained permanently by IHI. Generally, the donors of these assets permit the Organization to use all or part of the income earned on the related investments for general or specific purposes. At June 30, 2018 and 2017, there were no permanently restricted net assets.

Subsequent Events

Management has evaluated events and transactions occurring after June 30, 2018 through December 17, 2018, the date the financial statements were available for issuance, for recognition or disclosure in the financial statements. There were no events and transactions that required recognition and disclosure in the financial statements, other than disclosed in Notes 8 and 12.

Innovative Housing, Inc. and Affiliates
(A Not-For-Profit Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - RESTRICTED CASH

Loan agreements between IHI, Oregon Housing and Community Services, the Portland Housing Bureau, the Portland Development Commission and certain lenders require IHI to deposit funds into separate reserve accounts for each of the buildings financed. These funds are to be used for the purposes indicated below.

Restricted cash comprises the following as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Capital asset replacement reserves - established to fund the replacement of capital assets	\$ 1,406,877	\$ 926,173
Other lender/funder required reserves	-	179,760
Tax & Insurance Reserves - established to fund the annual payment of insurance	128,633	87,863
Restricted reserve pledged to lender for Center Village development	-	112,586
Security Deposits - IHI is required to set up separate accounts in which tenant security deposits are held	<u>295,697</u>	<u>237,585</u>
Total	<u>\$ 1,831,207</u>	<u>\$ 1,543,967</u>

NOTE 4 - NOTES RECEIVABLE - SHARED APPRECIATION MORTGAGES

Notes receivable include second mortgages on condominiums sold to eligible buyers. The notes carry no interest and are to be repaid only if and when the borrowers sell, transfer or cease to occupy the property as a primary residence. IHI collects a share of the appreciation in lieu of interest not being charged. The notes are subordinate to the first mortgages. At June 30, 2018 and 2017, the aggregate balances of the receivables were \$41,835, each year. Management expects all amounts to be collected. Accordingly, no allowances for uncollectible amounts have been established.

NOTE 5 - NOTES RECEIVABLE - RELATED PARTIES

IHI and affiliates held notes receivable secured by the underlying assets from the following related parties as of June 30, 2018 and 2017. The payment terms are subject to cashflow with interest ranging from 1 percent to 6 percent.

Innovative Housing, Inc. and Affiliates
(A Not-For-Profit Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - NOTES RECEIVABLE - RELATED PARTIES - (CONTINUED)

	<u>2018</u>	<u>2017</u>
Note Receivable - Musolf Manor LP, 3 percent interest compounded annually, payments are subject to Net Cash Flow, maturing October, 2037	\$ 172,416	\$ 207,392
Note Receivable - Owed to 82nd & Broadway by 82nd Ave LP including accrued interest	296,906	290,063
Note Receivable - Eliot for PHB including accrued interest	1,228,989	1,179,562
Note Receivable - Eliot Trust Fund including accrued interest	515,475	495,197
Note Receivable - 527 SE Morrison MT, LLC	4,402	-
Note Receivable - Woodland Square, LP including accrued interest	2,020,364	1,921,205
Note Receivable - Erickson Housing, LP including accrued interest	6,253,713	6,192,026
Note Receivable - Eliot PDC	127,172	120,958
Note Receivable - 82nd Avenue LP, at 3 percent to 4.32 percent interest, including accrued interest, maturing 2037 to 2043	3,586,299	3,555,546
Note Receivable - Raleigh predevelopment	<u>203,802</u>	<u>203,802</u>
Total	<u>\$ 14,409,538</u>	<u>\$ 14,165,751</u>

NOTE 6 - LAND, PROPERTY AND EQUIPMENT

Changes in land, property and equipment are as follows:

	<u>2017</u>	<u>Additions</u>	<u>Dispositions</u>	<u>2018</u>
Land	\$ 3,645,427	\$ 1,547,901	\$ -	\$ 5,193,328
Buildings and improvements	24,021,031	6,937,294	-	30,958,325
Furniture and equipment	193,979	116,767	(25,451)	285,295
Construction in progress	<u>54,486</u>	<u>1,037,833</u>	<u>-</u>	<u>1,092,319</u>
	27,914,923	9,639,795	(25,451)	37,529,267
Less: accumulated depreciation	<u>(7,870,668)</u>	<u>(1,067,632)</u>	<u>-</u>	<u>(8,938,300)</u>
	<u>\$ 20,044,255</u>	<u>\$ 8,572,163</u>	<u>\$ (25,451)</u>	<u>\$ 28,590,967</u>

Innovative Housing, Inc. and Affiliates
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - LAND, PROPERTY AND EQUIPMENT - (CONTINUED)

	<u>2016</u>	<u>Additions</u>	<u>Dispositions</u>	<u>2017</u>
Land	\$ 3,645,427	\$ -	\$ -	\$ 3,645,427
Buildings and improvements	24,082,412	56,804	(118,185)	24,021,031
Furniture and equipment	194,375	-	(396)	193,979
Construction in progress	<u>463,572</u>	<u>41,674</u>	<u>(450,760)</u>	<u>54,486</u>
	28,385,786	98,478	(569,341)	27,914,923
Less: accumulated depreciation	<u>(6,974,132)</u>	<u>(896,535)</u>	<u>(1)</u>	<u>(7,870,668)</u>
	<u>\$ 21,411,654</u>	<u>\$ (798,057)</u>	<u>\$ (569,342)</u>	<u>\$ 20,044,255</u>

NOTE 7 - INVESTMENT IN PARTNERSHIPS

IHI is the general partner and manager for several limited partnerships and limited liability companies that own and operate low income housing projects. These projects are owned by limited partnerships or limited liability companies (the Partnerships) in which IHI has varying ownership percentages, up to 1 percent interest. As general partner or member, IHI accounts for its investment in Partnerships in accordance with Accounting Standards Codification 323 - 30, formerly AICPA Statement of Position No. 78-9, Accounting for Investments in Real Estate, which requires the use of the equity method unless IHI has a controlling interest or its interest is not deemed to be temporary. As a result, IHI's investments in Partnerships are accounted for under the equity method. Under the equity method, the initial investment is recorded at cost and is increased or decreased by IHI's share of income or losses and is increased by contributions and decreased by distributions. IHI has also considered whether it has a controlling interest in the Partnerships, as discussed in the Accounting Standards Codification 323-30, formerly discussed in EITF 04-05, and has concluded that IHI does not have a controlling interest, and therefore is not required to consolidate the Partnerships.

IHI receives the following fees from the Partnerships:

Partnership Management Fees

IHI receives management fees from several partnerships in which IHI has an ownership interest. Management fee income for the years ended June 30, 2018 and 2017, was \$25,580 and \$35,084, respectively.

Asset Management Fees

IHI receives asset management fees from several partnerships in which IHI has an ownership interest. Asset management fee income for the years ended June 30, 2018 and 2017, was \$127,982 and \$105,728, respectively.

Property Development Fees

IHI enters into development services agreements whereby it acts as the developer on certain properties. Fees earned under these agreements during the years ended June 30, 2018 and 2017, were \$612,297 and \$200,000, respectively.

Innovative Housing, Inc. and Affiliates
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - INVESTMENT IN PARTNERSHIPS - (CONTINUED)

Resident Services Fees

IHI receives Resident Services fees from several partnerships for services provided to residents. Resident services fee income for the years ended June 30, 2018 and 2017, was \$101,250 and \$99,098, respectively. Resident services fees went down in this fiscal year due to IHI's acquisition of all ownership interests in the Clifford Apartments and subsequent elimination of the fees paid by the Clifford to IHI.

NOTE 8 - NOTES PAYABLE AND SUBSEQUENT EVENT

Notes payable as of June 30, 2018 and 2017 consist of the following:

	2018	2017
Predevelopment note payable to Portland Housing Bureau, in the original amount of \$618,137, secured by investment in real estate known as the Magnolia Apartments. The note carries no interest and matures in October, 2019.	\$ 405,138	\$ -
Note payable to Wells Fargo Bank, National Association for construction of and secured by the Rich Building. The note has a variable interest rate and matures on March 21, 2019. Interest expense during 2018 and 2017 totaled \$73,386 and \$62,183, respectively. Subsequent to year end, the note payable was refinanced and matures in August, 2025.	1,597,652	1,642,622
Mortgage note payable to Network for Oregon Affordable Housing secured by investment in real estate known as Cambrian Apartments was obtained in November, 2017. Interest at 5 percent is payable in monthly installments of \$10,577; the note matures November 1, 2020. The note can be extended for one period of up to 12 months. Interest expense during 2018 totaled \$80,997.	2,538,576	-
Note payable to Network for Oregon Affordable Housing is secured by investment in real estate known as Garden Park Apartments. Interest only payments at 5 percent are payable in monthly installments of \$13,576 beginning in January, 2018. The note matures December 1, 2020. Interest expense during 2018 totaled \$88,600.	3,258,319	-

Innovative Housing, Inc. and Affiliates
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - NOTES PAYABLE AND SUBSEQUENT EVENT - (CONTINUED)	2018	2017
<p>Mortgage note payable to Network for Oregon Affordable Housing secured by investment in real estate known as the Clifford Apartments. Principal and interest at 2.75 percent are payable in monthly installments of \$6,886; the note matures in April, 2021. Interest expense during 2018 and 2017 totaled \$25,664 and \$27,207, respectively.</p>	902,251	959,213
<p>Mortgage notes payable to Umpqua Bank, secured by investment in real estate known as Bridgeview Apartments. If no demand is made, principal and interest at 6.75 percent is payable in monthly installments of \$1,117 through June 1, 2021 when the remaining balance is due (estimated at \$126,540). Interest expense during 2018 and 2017 totaled \$9,438 and \$9,648, respectively.</p>	136,902	140,865
<p>Note payable to Columbia Bank, secured by investment in real estate known as Kinnaman, Whitmarsh Building, and Village Square. This note was obtained as part of the transfer of the three properties into Innovative KWVS, LLC. Principal and interest at 3.79 percent are payable in monthly installments of \$20,892; the note matures in January 1, 2026. Interest expense during 2018 and 2017 totaled \$147,453 and \$138,617, respectively.</p>	3,780,080	3,883,337
<p>Note payable to Columbia Bank, secured by investment in real estate known as Kinnaman, Whitmarsh Building, and Village Square. This note was obtained as part of the transfer of the three properties into Innovative KWVS, LLC. Principal and interest at 5.71 percent are payable in monthly installments of \$3,841; the note matures in January 1, 2026. Interest expense during 2018 and 2017 totaled \$33,966 and \$25,664.</p>	579,921	592,050
<p>Mortgage note payable to Key Bank, secured by investment in real estate known as Hewitt Place Townhomes. Principal and interest at 6.82 percent are payable in monthly installments of \$10,209; the note matures February 28, 2026. Interest expense during 2018 and 2017 totaled \$95,885 and \$99,128, respectively.</p>	1,389,964	1,416,586

Innovative Housing, Inc. and Affiliates
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - NOTES PAYABLE AND SUBSEQUENT EVENT - (CONTINUED)	2018	2017
<p>Note payable to Portland Housing Bureau secured by real estate known as Center Village Apartments, was assumed December, 31, 2015, when Innovative Center Village, LLC purchased the property. Interest of 3 percent will accrue on the principal balance and capitalized interest. All outstanding principal balance and accrued interest are due and payable in May 2030. Interest expense during 2018 and 2017 totaled \$5,986 and \$11,975, respectively.</p>	487,597	495,015
<p>Note payable to Wells Fargo secured by real estate known as Center Village Apartments, was assumed in December, 31, 2015, when Innovative Center Village, LLC purchased the property. Payments of principal and interest of \$15,926 are due monthly, based on a 360 month amortization schedule, with all outstanding principal and accrued interest due in 2030. Interest expense during 2018 and 2017 totaled \$115,325 and \$120,306, respectively.</p>	1,558,669	1,634,320
<p>Note payable to City of Portland, secured by investment in real estate known as Broadway Vantage Apartments. The note carries no interest. Principal is payable in annual installments equal to 1/2 annual cash flow as defined in the loan agreement. The note matures on February 1, 2038 if not paid off earlier by annual cash flow payments.</p>	2,204,753	2,244,221
<p>Note payable to City of Portland, secured by investment in real estate known as the Magnolia Apartments. The note carries no interest. Principal is payable in annual installments equal to 1/2 the property's annual cash flow, as defined in the loan agreement. The note matures in 2043 if not paid off earlier by annual cash flow payments.</p>	975,000	975,000
<p>Note payable to City of Portland, for up to \$6,339,093, secured by investment in real estate known as the Erickson/Fritz Apartments. The note carries no interest. Principal is payable in annual installments equal to 1/2 the property's annual cash flow, as defined in the loan agreement. The note matures March 1, 2056 if not paid off earlier by annual cash flow payments.</p>	6,084,262	6,084,262

Innovative Housing, Inc. and Affiliates
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - NOTES PAYABLE AND SUBSEQUENT EVENT - (CONTINUED)	<u>2018</u>	<u>2017</u>
<p>Note payable to City of Portland, secured by investment in real estate known as the Bridgeview Apartments. The note carries no interest. Principal is payable in annual installments equal to 1/2 annual cash flow as defined in the loan agreement. The note matures on November 1, 2066 if not paid off earlier by annual cash flow payments.</p>	904,320	904,320
<p>Note payable to City of Portland for equity gap contribution secured by investment in real estate known as The Clifford Apartments. The note carries no interest. Principal is payable in annual installments equal to 1/2 the property's annual cash flow, as defined in the loan agreement. The note matures in 2070 if not paid off earlier by annual cash flow payments.</p>	3,350,000	3,350,000
<p>Note payable to City of Portland secured by investment in real estate known as the Hewitt Place Townhomes. The note carries no interest. Principal is payable in annual installments equal to 1/2 the property's annual cash flow, as defined in the loan agreement. The note matures in 2070 if not paid off earlier by annual cash flow payments.</p>	<u>686,493</u>	<u>686,493</u>
<p>Total</p>	30,839,897	25,008,304
<p>Less: unamortized debt issuance costs</p>	(220,077)	(335,654)
<p>Less: current maturities of long term debt</p>	<u>(2,298,397)</u>	<u>(326,819)</u>
<p>Long term debt, net of current maturities</p>	\$ 28,321,423	\$ 24,345,831

The following schedule outlines principal amounts due on the notes:

<u>Year</u>	<u>Amount</u>
2019	\$ 2,298,397
2020	310,616
2021	1,171,260
2022	274,466
2023	283,610
2024 and later years	<u>26,501,548</u>
	<u>\$ 30,839,897</u>

Innovative Housing, Inc. and Affiliates
(A Not-For-Profit Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

The bulk of restricted net assets are grants made for specific affordable housing developments. Funds were spent in accordance with funder restrictions, but the grants carry long term use restrictions - in most cases, 60-year terms. Temporarily restricted net assets decreased by \$231,079 and \$297,335 between June 30, 2018 and June 30, 2017.

Temporarily restricted net assets are made up of the following grants as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Acquisition and rehabilitation of Hewitt Place Townhomes - American Recovery and Reinvestment funding	\$ 2,734,005	\$ 2,734,005
ARRA net assets released from restrictions	(1,458,128)	(1,275,861)
HDGP capital grant for Hewitt Place	70,000	70,000
WX capital grant for Musolf Manor	52,393	52,393
HDGP capital grant for Musolf Manor	100,000	100,000
Restricted grant assumed by IHI as part of donated land and building - Whitmarsh	300,000	300,000
WX capital grant for Broadway Vantage	95,779	95,779
Multnomah County capital grant for Broadway Vantage	50,000	50,000
HDGP capital grant for Broadway Vantage	\$ 100,000	\$ 100,000
FHLB capital grant for Broadway Vantage	\$ 250,000	\$ 250,000
GHAP capital grant for the Clifford	197,000	197,000
HELP capital grant for the Clifford	75,000	75,000
WX capital grant for the Clifford	100,000	100,000
FHLB capital grant for the Clifford	791,912	791,912
HDGP capital grant for Magnolia	200,000	200,000
HELP capital grant for Magnolia	\$ 200,000	\$ 200,000

Innovative Housing, Inc. and Affiliates
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS - CONTINUED

	2018	2017
GHAP capital grant for Woodwind	\$ 200,000	\$ 200,000
HOME capital grant for Village Square	354,000	354,000
HOPWA capital grant for Cornerstone	300,000	300,000
HOPWA capital grant for Cornerstone	24,000	24,000
HDGP capital grant for Kinnaman	100,000	100,000
Meyer Memorial Trust sustaining portfolio strategy grant	60,258	109,070
Total	\$ 4,896,219	\$ 5,127,298

NOTE 10 - SECTION 403(B) SAVINGS PLAN

IHI maintains a qualified cash or deferred compensation plan (the "Plan") under Section 403(b) of the Internal Revenue Code. Under the Plan, employees may elect to defer up to 25 percent of their salary, subject to the Internal Revenue Service limitations. IHI matches employee contributions up to a maximum of 5 percent of the employee's eligible salary. Employees are immediately 100 percent vested in all employer contributions. For the years ended June 30, 2018 and 2017, IHI contributed \$29,105 and \$27,309 to the plan, respectively.

NOTE 11 - OTHER COMMITMENTS AND CONTINGENCIES

Operating Deficit Guaranty - Eliot Housing Limited Partnership

IHI, as general partner of Eliot Housing LP, is obligated jointly and severally, to pay any excess costs and expenses incurred by the Partnership through the operating deficit guaranty period. Any such funds shall be limited to a maximum of \$170,000 and shall be in the form of a loan to the Partnership.

Operating Deficit Guaranty - Erickson Housing Limited Partnership

IHI, as owner of the general partner in Erickson Housing Limited Partnership, is obligated, jointly and severally, to pay any excess costs and expenses incurred by the Partnership through the operating deficit guaranty period. Any such funds shall be limited to a maximum of \$443,000 and shall be in the form of a loan.

Operating Deficit Guaranty - Woodland Square Limited Partnership

IHI, as the owner of the general partner in Woodland Square Limited Partnership, is obligated jointly and severally, to pay any excess costs and expenses incurred by the Partnership through the operating deficit guaranty period. Any such funds shall be limited to a maximum of \$170,000 and shall be in the form of a loan to the Partnership.

Innovative Housing, Inc. and Affiliates
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - OTHER COMMITMENTS AND CONTINGENCIES - (CONTINUED)

Developer Payment Guaranty - Raleigh Housing Limited Partnership

IHI, as the owner of the general partner in Raleigh Housing Limited Partnership, is obligated jointly and severally, the full and timely performance and payment of (a) all of the obligations of the Developer under the Development Agreement and (b) all of the obligations of the General Partner under the Partnership Agreement.

Construction Completion Guaranty - Raleigh Housing Limited Partnership

IHI, as the owner of the general partner in Raleigh Housing Limited Partnership, is obligated to pay all excess development costs. Any amounts paid shall be treated as a loan to be repaid without interest from available Net Cash Flow or upon sale or refinancing. The General Partner shall advance funds to the Partnership as and when needed to pay costs of acquisition and/or Construction (even though such costs are not expected to be Excess Development Costs) if it is anticipated that such costs will be paid from the proceeds of the Construction Loan, Permanent Financing, Net Interim Income or the Investor Limited Partners' Capital Contributions, but such funds are not available at the time such costs must be paid. The obligation of the General Partner includes repayment of the Construction Loan in full at its maturity if conditions for Capital Contributions to be used to pay off such Construction Loan have not then been met. Such advances to the Partnership by the General Partner shall be repaid as and when amounts become available from such sources or from Net Interim Income.

NOTE 12 - SUBSEQUENT EVENTS

IHI refinanced the Rich Building mortgage (that was scheduled to mature in 2019) in August of 2018. The new maturity date is August, 2025.

IHI closed on the acquisition of the Merwyn Hotel in Astoria in October 2018. IHI closed on financing and began construction of Magnolia 2 in November, 2018. IHI was reimbursed for predevelopment costs of approximately \$240,156 at closing and sold land to the partnership for \$475,868. IHI anticipates closing on financing and starting rehabilitation of the Center Village Apartments in January, 2019. Construction at NW 14th/Raleigh will continue into FY 2019, with completion scheduled for March, 2019.



Loveridge Hunt & Co., 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
Innovative Housing, Inc. and Affiliates
Portland, OR

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 financial statements of Innovative Housing, Inc. and Affiliates, a Not-For-Profit Corporation, (the Organization), which comprise the statements of financial position as of June 30, 2018, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 17, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization'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.

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 - (CONTINUED)

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Loveridge Hunt & APC
Bellevue, Washington
December 17, 2018

ADDITIONAL INFORMATION

INNOVATIVE HOUSING, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
As of June 30, 2018

	Innovative Housing, Inc	82nd & Broadway LLC	Bridgeview Housing LLC	Clifford Apartments LLC	Hewitt Place II GP LLC	IHI/Musolf LLC	Innovative Cambrian LLC	Innovative Center Village LLC
Assets:								
Cash and cash equivalents	\$ 1,588,151	\$ 100,500	\$ 58,653	\$ 80,549	\$ 255,509	\$ 6,784	\$ 13,278	\$ 310,665
Restricted cash	-	-	71,210	562,204	440,317	-	116,000	-
Investments	3,293,630	-	-	-	-	-	-	-
Prepaid expenses	5,466	-	3,426	8,940	11,667	-	2,890	7,034
Receivables:								
Management fees	25,000	-	-	-	-	-	-	-
Development fees	1,298,685	-	-	-	-	-	-	-
Other	178,116	-	1,419	42,814	342	-	1,176	1,788
Construction in progress	1,069,169	-	-	-	-	-	-	23,150
Notes receivable from related parties	12,411,615	296,906	-	-	-	-	-	-
Notes receivable - shared appreciation mortgages	41,835	-	-	-	-	-	-	-
Notes receivable - employees	-	-	-	-	-	-	-	-
Investment in limited partnerships	6,661,253	214,571	-	-	-	314,743	-	-
Property and equipment, net	812,867	-	649,864	5,200,868	3,579,104	-	4,039,968	2,143,651
Security deposits	<u>3,083</u>	<u>-</u>	<u>2,436</u>	<u>20,000</u>	<u>39,556</u>	<u>-</u>	<u>15,721</u>	<u>25,308</u>
Total assets	<u>27,388,870</u>	<u>611,977</u>	<u>787,008</u>	<u>5,915,375</u>	<u>4,326,495</u>	<u>321,527</u>	<u>4,189,033</u>	<u>2,511,596</u>
Liabilities and net assets:								
Accounts payable and accrued liabilities	189,024	-	4,306	35,967	-	-	22,773	51,366
Developer fee payable	-	-	2,369	197,605	-	-	-	-
Tenant security deposits	3,083	-	3,270	20,400	39,556	-	15,721	25,308
Deferred liabilities & prepaid rent	3	-	6,739	830	45	-	850	1,045
Notes payable	<u>9,669,152</u>	<u>93,000</u>	<u>1,040,080</u>	<u>4,223,329</u>	<u>2,042,245</u>	<u>-</u>	<u>2,506,772</u>	<u>2,032,299</u>
Total liabilities	<u>9,861,262</u>	<u>93,000</u>	<u>1,056,764</u>	<u>4,478,131</u>	<u>2,081,846</u>	<u>-</u>	<u>2,546,116</u>	<u>2,110,018</u>
Net income	1,859,560	6,820	1,856	(181,467)	15,105	(22)	(95,009)	116,882
Capital contribution	-	-	-	-	-	-	-	-
Net assets	<u>15,668,048</u>	<u>512,157</u>	<u>(271,612)</u>	<u>1,618,711</u>	<u>2,229,544</u>	<u>321,549</u>	<u>1,737,926</u>	<u>284,696</u>
	17,527,608	518,977	(269,756)	1,437,244	2,244,649	321,527	1,642,917	401,578
Total liabilities and net assets	<u>\$ 27,388,870</u>	<u>\$ 611,977</u>	<u>\$ 787,008</u>	<u>\$ 5,915,375</u>	<u>\$ 4,326,495</u>	<u>\$ 321,527</u>	<u>\$ 4,189,033</u>	<u>\$ 2,511,596</u>

INNOVATIVE HOUSING, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION - CONTINUED
As of June 30, 2018

	Innovative Garden Park	Innovative KWVS LLC	Innovative Rich LLC	Innovative Woodland Square LLC	ITH Inc	Eliminating	Consolidated Total
Assets:							
Cash and cash equivalents	\$ 75,298	\$ 979,352	\$ 398,673	\$ 2,612	\$ 9,993	\$ -	\$ 3,880,017
Restricted cash	123,390	138,076	84,313	-	-	-	1,535,510
Investments	-	-	-	-	-	-	3,293,630
Prepaid expenses	8,248	38,164	3,271	-	-	-	89,106
Receivables:							
Management fees	-	-	-	-	-	-	25,000
Development fees	-	-	-	-	-	(199,974)	1,098,711
Other	2,938	14,077	1,553	-	-	(177,133)	67,090
Construction in progress	-	-	-	-	-	-	1,092,319
Notes receivable from related parties	-	-	-	1,797,517	-	(96,500)	14,409,538
Notes receivable - shared appreciation mortgages	-	-	-	-	-	-	41,835
Notes receivable - employees	-	-	-	-	-	-	-
Investment in limited partnerships	-	-	-	(54)	-	(6,245,256)	945,257
Property and equipment, net	4,101,705	4,622,167	2,348,454	-	-	-	27,498,648
Security deposits	<u>39,354</u>	<u>119,380</u>	<u>30,859</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>295,697</u>
Total assets	<u>4,350,933</u>	<u>5,911,216</u>	<u>2,867,123</u>	<u>1,800,075</u>	<u>9,993</u>	<u>(6,718,863)</u>	<u>54,272,358</u>
Liabilities and net assets:							
Accounts payable and accrued liabilities	4,245	15,202	-	-	-	(46,038)	276,845
Developer fee payable	-	-	-	-	-	(199,974)	-
Tenant security deposits	39,354	120,828	30,859	-	-	-	298,379
Deferred liabilities & prepaid rent	27	3,254	329	-	-	-	13,122
Notes payable	<u>3,210,687</u>	<u>4,297,604</u>	<u>1,597,652</u>	<u>3,500</u>	<u>-</u>	<u>(96,500)</u>	<u>30,619,820</u>
Total liabilities	<u>3,254,313</u>	<u>4,436,888</u>	<u>1,628,840</u>	<u>3,500</u>	<u>-</u>	<u>(342,512)</u>	<u>31,208,166</u>
Net income	(46,343)	432,006	76,040	87,959	(9,037)	12,746	2,277,096
Capital contribution	1,094,158	-	-	-	-	(1,094,158)	-
Net assets	<u>48,805</u>	<u>1,042,322</u>	<u>1,162,243</u>	<u>1,708,616</u>	<u>19,030</u>	<u>(5,294,939)</u>	<u>20,787,096</u>
	1,096,620	1,474,328	1,238,283	1,796,575	9,993	(6,376,351)	23,064,192
Total liabilities and net assets	<u>\$ 4,350,933</u>	<u>\$ 5,911,216</u>	<u>\$ 2,867,123</u>	<u>\$ 1,800,075</u>	<u>\$ 9,993</u>	<u>\$ (6,718,863)</u>	<u>\$ 54,272,358</u>

INNOVATIVE HOUSING, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
As of June 30, 2017

	Innovative Housing, Inc	82nd & Broadway	Bridgeview Housing LLC	Clifford Apartments LLC	Hewitt Place II GP LLC	IHI/Musolf LLC	Innovative Center Village LLC
Assets:							
Cash and cash equivalents	\$ 3,084,373	\$ 100,475	\$ 41,094	\$ 82,625	\$ 241,251	\$ 6,781	\$ 114,187
Restricted cash	-	-	64,772	555,730	375,707	-	112,586
Investments	2,293,109	-	-	-	-	-	-
Prepaid expenses	7,545	-	3,603	8,861	10,373	-	6,183
Receivables:							
Management fees	102,098	-	-	-	-	-	-
Development fees	928,164	-	-	-	-	-	-
Deposits in transit	1,166,140	-	-	-	-	-	-
Other	2,495	-	680	51,078	3,998	-	2,233
Construction in progress	54,486	-	-	-	-	-	-
Notes receivable from related parties	12,356,030	290,063	-	-	-	-	-
Notes receivable - shared appreciation mortgages	41,835	-	-	-	-	-	-
Investment in limited partnerships	4,462,890	214,620	-	-	-	314,768	-
Property and equipment, net	737,963	-	676,682	5,469,692	3,601,969	-	2,202,874
Security deposits	3,083	-	766	13,535	37,773	-	25,161
Total assets	<u>25,240,211</u>	<u>605,158</u>	<u>787,597</u>	<u>6,181,521</u>	<u>4,271,071</u>	<u>321,549</u>	<u>2,463,224</u>
Liabilities and net assets:							
Accounts payable and accrued liabilities	54,088	-	5,438	73,009	-	-	42,944
Accrued interest	-	-	-	-	-	-	-
Developer fee payable	-	-	2,369	197,605	-	-	-
Security deposits	3,083	-	766	14,201	37,773	-	25,161
Deferred liabilities & prepaid rent	-	-	6,998	574	15	-	1,045
Notes payable	<u>9,303,482</u>	<u>93,000</u>	<u>1,043,640</u>	<u>4,277,420</u>	<u>1,923,333</u>	<u>-</u>	<u>2,109,382</u>
Total liabilities	9,360,653	93,000	1,059,211	4,562,809	1,961,121	-	2,178,532
Net income	1,190,631	6,797	(14,489)	(213,522)	(25,913)	(132)	59,654
Net assets	<u>14,688,927</u>	<u>505,361</u>	<u>(257,125)</u>	<u>1,832,234</u>	<u>2,335,863</u>	<u>321,681</u>	<u>225,038</u>
	15,879,558	512,158	(271,614)	1,618,712	2,309,950	321,549	284,692
Total liabilities and net assets	<u>\$ 25,240,211</u>	<u>\$ 605,158</u>	<u>\$ 787,597</u>	<u>\$ 6,181,521</u>	<u>\$ 4,271,071</u>	<u>\$ 321,549</u>	<u>\$ 2,463,224</u>

INNOVATIVE HOUSING, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION - CONTINUED
As of June 30, 2017

	Innovative KWVS LLC	Innovative Rich LLC	Innovative Woodland Square LLC	ITH Inc	Eliminating	Consolidated Total
Assets:						
Cash and cash equivalents	\$ 864,149	\$ 310,922	\$ 2,862	\$ 23,406	\$ -	\$ 4,872,125
Restricted cash	133,753	63,834	-	-	-	1,306,382
Investments	-	-	-	-	-	2,293,109
Prepaid expenses	39,354	3,629	-	-	-	79,548
Receivables:						
Management fees	-	-	-	-	(77,098)	25,000
Development fees	-	-	-	-	(199,974)	728,190
Deposits in transit	-	-	-	-	-	1,166,140
Other	10,387	2,736	-	-	(29,728)	43,879
Construction in progress	-	-	-	-	-	54,486
Notes receivable from related parties	-	-	1,621,100	-	(101,442)	14,165,751
Notes receivable - shared appreciation mortgages	-	-	-	-	-	41,835
Investment in limited partnerships	-	-	(54)	-	(4,104,522)	887,702
Property and equipment, net	4,874,934	2,425,655	-	-	-	19,989,769
Security deposits	<u>123,882</u>	<u>33,385</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>237,585</u>
Total assets	<u>6,046,459</u>	<u>2,840,161</u>	<u>1,623,908</u>	<u>23,406</u>	<u>(4,512,764)</u>	<u>45,891,501</u>
Liabilities and net assets:						
Accounts payable and accrued liabilities	6,159	-	-	3,881	(4,739)	180,780
Accrued interest	-	-	-	-	-	-
Developer fee payable	-	-	-	-	(199,974)	-
Security deposits	123,882	33,385	-	-	-	238,251
Deferred liabilities & prepaid rent	2,182	1,910	-	-	-	12,724
Notes payable	<u>4,371,915</u>	<u>1,642,622</u>	<u>3,500</u>	<u>-</u>	<u>(95,644)</u>	<u>24,672,650</u>
Total liabilities	<u>4,504,138</u>	<u>1,677,917</u>	<u>3,500</u>	<u>3,881</u>	<u>(300,357)</u>	<u>25,104,405</u>
Net income	356,872	61,436	(1,057)	(160,058)	159,261	1,419,480
Net assets	<u>1,185,449</u>	<u>1,100,808</u>	<u>1,621,465</u>	<u>179,583</u>	<u>(4,371,668)</u>	<u>19,367,616</u>
	1,542,321	1,162,244	1,620,408	19,525	(4,212,407)	20,787,096
Total liabilities and net assets	<u>\$ 6,046,459</u>	<u>\$ 2,840,161</u>	<u>\$ 1,623,908</u>	<u>\$ 23,406</u>	<u>\$ (4,512,764)</u>	<u>\$ 45,891,501</u>

INNOVATIVE HOUSING, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF ACTIVITIES
For the year ended June 30, 2018

	Innovative Housing, Inc	82nd & Broadway	Bridgeview Housing LLC	Clifford Apartments LLC	Hewitt Place II GP LLC	IHI/Musolf LLC	Innovative Cambrian LLC	Innovative Center Village LLC
Support and revenue:								
Grants and contributions	\$ 1,318,512	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Partnership and asset mgmt fees	219,412	-	-	-	-	-	-	-
Property development fees	612,297	-	-	-	-	-	-	-
Rental income	60,600	-	141,440	785,037	508,976	-	157,987	737,242
Resident services fees	205,791	-	-	-	-	-	-	-
Interest income	405,952	6,969	37	318	535	3	58	4
Other	<u>314,386</u>	<u>(49)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(25)</u>	<u>-</u>	<u>-</u>
Total support and revenue	3,136,950	6,920	141,477	785,355	509,511	(22)	158,045	737,246
Expenses								
Program services								
Asset management	199,011	-	-	-	-	-	-	-
Resident services	441,791	-	-	-	-	-	-	-
Housing development	264,535	-	-	-	-	-	-	-
Property ownership	210,095	100	139,621	966,822	494,406	-	253,054	620,364
Supporting services								
Management and general	113,724	-	-	-	-	-	-	-
Communications	21,031	-	-	-	-	-	-	-
Fundraising	<u>27,203</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses	1,277,390	100	139,621	966,822	494,406	-	253,054	620,364
Net income	<u>\$ 1,859,560</u>	<u>\$ 6,820</u>	<u>\$ 1,856</u>	<u>\$ (181,467)</u>	<u>\$ 15,105</u>	<u>\$ (22)</u>	<u>\$ (95,009)</u>	<u>\$ 116,882</u>

INNOVATIVE HOUSING, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF ACTIVITIES - CONTINUED
For the year ended June 30, 2018

	Innovative Garden Park	Innovative KWVS LLC	Innovative Rich LLC	Innovative Woodland Square LLC	ITH Inc	Eliminating	Consolidated Total
Support and revenue:							
Grants and contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,318,512
Partnership and asset mgmt fees	-	-	-	-	-	(65,850)	153,562
Property development fees	-	-	-	-	-	-	612,297
Rental income	396,965	1,699,595	395,760	-	-	-	4,883,602
Resident services fees	-	-	-	-	-	(104,541)	101,250
Interest income	73	2,702	430	88,209	4	-	505,294
Other	-	40,000	-	-	-	(10,500)	343,812
Total support and revenue	<u>397,038</u>	<u>1,742,297</u>	<u>396,190</u>	<u>88,209</u>	<u>4</u>	<u>(180,891)</u>	<u>7,918,329</u>
Expenses							
Program services							
Asset management	-	-	-	-	-	-	199,011
Resident services	-	-	-	-	-	-	441,791
Housing development	-	-	-	-	-	-	264,535
Property ownership	443,381	1,310,291	320,150	250	9,041	(193,637)	4,573,938
Supporting services							
Management and general	-	-	-	-	-	-	113,724
Communications	-	-	-	-	-	-	21,031
Fundraising	-	-	-	-	-	-	27,203
Total expenses	<u>443,381</u>	<u>1,310,291</u>	<u>320,150</u>	<u>250</u>	<u>9,041</u>	<u>(193,637)</u>	<u>5,641,233</u>
Net income	<u>\$ (46,343)</u>	<u>\$ 432,006</u>	<u>\$ 76,040</u>	<u>\$ 87,959</u>	<u>\$ (9,037)</u>	<u>\$ 12,746</u>	<u>\$ 2,277,096</u>

INNOVATIVE HOUSING, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF ACTIVITIES
For the year ended June 30, 2017

	Innovative Housing, Inc	82nd & Broadway	Bridgeview Housing LLC	Clifford Apartments LLC	Hewitt Place II GP LLC	IHI/Musolf LLC	Innovative Center Village LLC
Support and revenue:							
Grants and contributions	\$ 82,205	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Partnership and asset mgmt fees	208,542	-	-	-	-	-	-
Property development fees	200,000	-	-	-	-	-	-
Rental income	55,995	-	120,095	700,994	506,782	-	642,444
Resident services fees	183,674	-	-	-	-	-	-
Interest income	447,042	6,939	28	315	465	3	-
Sale of property	955,654	-	-	-	-	-	-
Other	<u>191,084</u>	<u>(42)</u>	<u>-</u>	<u>80,500</u>	<u>-</u>	<u>(35)</u>	<u>-</u>
Total support and revenue	2,324,196	6,897	120,123	781,809	507,247	(32)	642,444
Expenses							
Program services							
Asset management	185,705	-	-	-	-	-	-
Resident services	377,731	-	-	-	-	-	-
Housing development	261,499	-	-	-	-	-	-
Property ownership	126,721	100	134,612	995,331	533,160	100	582,790
Supporting services							
Management and general	99,041	-	-	-	-	-	-
Communications	35,308	-	-	-	-	-	-
Fundraising	<u>47,560</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses	1,133,565	100	134,612	995,331	533,160	100	582,790
Net income	<u>\$ 1,190,631</u>	<u>\$ 6,797</u>	<u>\$ (14,489)</u>	<u>\$ (213,522)</u>	<u>\$ (25,913)</u>	<u>\$ (132)</u>	<u>\$ 59,654</u>

INNOVATIVE HOUSING, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF ACTIVITIES - CONTINUED
For the year ended June 30, 2017

	Innovative KWVS LLC	Innovative Rich LLC	Innovative Woodland Square LLC	ITH Inc	Eliminating	Consolidated Total
Support and revenue:						
Grants and contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 82,205
Partnership and asset mgmt fees	-	-	-	-	(67,730)	140,812
Property development fees	-	-	-	-	-	200,000
Rental income	1,709,916	375,145	-	-	-	4,111,371
Resident services fees	-	-	-	-	(84,576)	99,098
Interest income	1,143	317	-	14	-	456,266
Sale of property	-	-	-	-	-	955,654
Other	-	-	(41)	(149,113)	68,613	190,966
Total support and revenue	<u>1,711,059</u>	<u>375,462</u>	<u>(41)</u>	<u>(149,099)</u>	<u>(83,693)</u>	<u>6,236,372</u>
Expenses						
Program services						
Asset management	-	-	-	-	-	185,705
Resident services	-	-	-	-	-	377,731
Housing development	-	-	-	-	-	261,499
Property ownership	1,354,187	314,026	1,016	10,959	(242,954)	3,810,048
Supporting services						
Management and general	-	-	-	-	-	99,041
Communications	-	-	-	-	-	35,308
Fundraising	-	-	-	-	-	47,560
Total expenses	<u>1,354,187</u>	<u>314,026</u>	<u>1,016</u>	<u>10,959</u>	<u>(242,954)</u>	<u>4,816,892</u>
Net income	<u>\$ 356,872</u>	<u>\$ 61,436</u>	<u>\$ (1,057)</u>	<u>\$ (160,058)</u>	<u>\$ 159,261</u>	<u>\$ 1,419,480</u>