WCRA ANNUAL REPORT 2018

MISSION

To meet Washington's affordable housing and economic development needs through partnership.

GUIDING PRINCIPALS

The WCRA endeavors:

- To expand resources for the creation and preservation of real estate based community development in Washington State.
- To expand resources for financing non real estate based loans to emerging nonprofits without access to traditional banking.
- To be a voice for its member financial institutions on affordable housing and community development issues.
- To provide a dynamic risk sharing vehicle to maximize private investment in community development throughout Washington State.
- To operate within a strategic and financially prudent structure.
- To work with public sector entities to promote public/private partnerships that achieve maximum leverage of public dollars.
- To provide value to its members and the communities they serve that will generate and sustain support for WCRA's long term operation and success.

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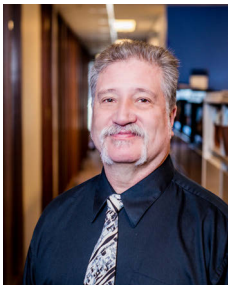
WCRA Staff

Susan M. Duren
President

Dulcie J. Claassen
Vice President and Director of Lending



Gary L. Murphy
Assistant Vice President

Angel L. Ratliff
Loan Servicing Officer

Rose Minier
Accountant and Office Manager

Allison F. Brundage
Office Assistant

Chair and President's Letter

Our 26th year turned out to be spectacular! The Board of Directors approved an increase in the Pool 1 minimum investment for new members from $200,000 to $500,000, which prompted 1st Security Bank, Cathay Bank, and North Cascades Bank (a division of Glacier Bank), to increase their commitment to the new investment amount, which was not a requirement of the approval. Additionally, Opus Bank increased their commitment in Pool 1 by $1,000,000. Pool 3, our economic development pool, received over $3,500,000 in new committed funding as a result of three new members, First Financial Northwest Bank, East West Bank and Yakima Federal Savings Bank and an increased commitment by existing member Skagit Bank.

We had very robust loan applications and approvals totaling $24,175,100 and loan closings of $18,478,000. These milestones were well over the usual WCRA totals and will provide over 960 units of housing and 18,260 square feet of economic development space. We were pleased to receive loan committee approval to provide acquisition funding to close a loan on a market rate apartment property that was converted to affordable rental housing, a complete reversal of what usually will happen. Other transactions included funding for a 192-bed seasonal farmworker property in Mattawa, the preservation of an existing portfolio loan with funds for some upgrades, a property that provides housing for special needs tenants, a mobile home park, and a commitment to fund the permanent loan on economic development space when the overall project is completed.

The sale of some of our seasoned, well-performing loans during the year was an additional benefit to our members in addition to the loans made to their pool commitments. Four members purchased eight loans for over $13,639,000 which resulted in a $262,000 premium of a one-time gain to add to our revenue for the year.

Christine Roveda
Wells Fargo Bank – Chair

Susan Duren
WCRA – President

We started the process of amending our Memorandum of Understanding with the Washington State Housing Finance Commission for the Capital Plus! program. This program was started in 2003 with a commitment of $3,000,000 and thanks to the generosity of the Commission will grow to a total of $11,500,000 in support of assisting small nonprofit organizations to finance real estate or equipment.

During the year, we reluctantly accepted the resignation of our Board of Directors Chair, John Swanson but were fortunate to have Christine Roveda, who had been the Board Treasurer, step into the Chair position. Judith Olsen, one of the four non-industry Board of Directors, retired and was replaced by Stephen C. Walker of the City of Seattle Office of Housing. Courtney Hashimoto of Umpqua Bank and Robert Granfelt of Opus Bank came on as new Bank directors. Many thanks to all the Board of Directors for their support throughout the past year.

2018 Board of Directors

Christine Roveda
Wells Fargo Bank – Chair

Brad Stevens
Washington Trust Bank

Michael Dotson
Banner Bank – Vice-Chair

Mike Gilmore
Yakima Federal Savings & Loan Association

Jay Coleman
KeyBank – Secretary

Steve C. Walker
City of Seattle Office of Housing

Bob Powers
JPMorgan Chase – Treasurer

M.A. Leonard
Enterprise Community Partners

Susan Duren
WCRA – President

Diane Klontz
Washington State Department of Commerce

Bob Granfelt
Opus Bank

Paul Edwards
Washington State Housing Finance Commission

Courtney Hashimoto
Umpqua Bank

Tim Grant
Washington Federal

Counsel to the Board of Directors

Scott J. Borth
Perkins Coie

2018 Loan Committee

Lauren Jassny
The Commerce Bank of Washington – Chair

Sergio Goncalves
Columbia Bank

James Vossoughi
JPMorgan Chase

Alex Tkachuk
KeyBank

Fred Holubik
Kitsap Bank

Kim Etherton
Umpqua Bank

Jack Sommerville
Washington Federal

Amy Mandell
Wells Fargo Bank

Susan M. Duren
WCRA

Dulcie Claassen
WCRA

WCRA 2018 Membership

1st Security Bank of Washington

Anchor Bank

Bank of the Pacific

Bank of the West

Banner Bank

Beneficial State Bank

Cashmere Valley Bank

Cathay Bank

Columbia Bank

The Commerce Bank of Washington

East West Bank

First Federal Savings & Loan Association of Port Angeles

First Financial Northwest Bank

First Sound Bank

Heritage Bank

HomeStreet Bank

JPMorgan Chase, N.A.

KeyBank

Kitsap Bank

MUFG Union Bank, N.A.

North Cascades Bank – a division of Glacier Bank

Northern Trust Bank

Olympia Federal Savings & Loan Association

Opus Bank

Riverview Community Bank

Seattle Bank

Skagit Bank

Timberland Bank

Umpqua Bank

Washington Federal

Washington Trust Bank

Wells Fargo Bank

Yakima Federal Savings & Loan Association

NorthStar Apartments

WCRA is proud to have provided financing for the Northstar Apartment building. Northstar is a 39-unit community in Everett that provides affordable housing to residents undergoing treatment for mental illness. All apartments, which include studios, one, and two-bedrooms, are located within a single 3-story building that was built in 1974. The community features elevator access to upper floors, a resident lounge and laundry facility, as well as onsite management offices and a resident manager.

Northstar Apartments is located close to downtown Everett, and features easy access to public transportation, with a bus stop one block away. Compass Health, the borrower on this project, is located adjacent to Northstar Apartments in their Broadway Campus. Within this campus, services such as crisis prevention, homelessness assistance, and psychiatric services are offered.

Compass Health is a nonprofit corporation formed in 1997, and is a merger of mental health organizations from Island, Skagit, and Snohomish counties. Since the merger, Compass has expanded its coverage area to include San Juan and Whatcom counties and now operates at over 20 locations. Many crucial services are provided, including inpatient clinics that offer 24-hour treatment to adults who are unable to live independently due to mental illness. They also operate outpatient clinics that offer counseling, case management, therapy, and intensive services to high risk children and adults. Northstar Apartments is a portion of their housing support services, which are provided to individuals with chronic mental illness who would otherwise not be able to house themselves. The housing program also provides motel vouchers for a safe place to sleep while staff locates longer-term housing.

Amber Gordon, Area Manager for Coast Property Management, oversees the daily operations at Northstar. She has worked in some aspect of affordable housing for 16 years , and finds motivation in seeing how residents benefit from what Compass Health offers. "It is satisfying to see our residents move off the streets, get the medical help that they need and progress towards a more successful life. My favorite part of the day is when I take a quick walk around Northstar so I can say Hi to anyone who is around. Our residents are so appreciative and are always happy to see us, they make me smile."

> "My favorite part of the day is when I take a quick walk around Northstar so I can say Hi to anyone who is around."
>
> *Amber Gordon*
> *Area Manager for Coast Property*

She notes that Northstar offers affordable housing to individuals with chronic mental illness and that the majority of residents have been homeless. "Northstar provides safe and affordable housing to a demographic of individuals that have challenges finding housing due to many factors. We eliminate the barriers, this allows for our residents to have a home and the medical resources they need. It is gratifying to be part of the team that makes a positive impact in our community."

Firestation #7

The building itself is a two story brick firehouse built in 1920. The fire department remained active there until 1970, and building renovations took place shortly afterwards. It has been the home of the Environmental Works (EW) main office for the past 30 years, and retail shop Station 7 since 2015, a community-based store offering locally sourced artwork and home goods.

Station 7 is at street level with the EW offices located above. This historic property will continue to be preserved and maintained and its historic use celebrated. For instance, even though there is no longer a need for a fire pole, its original area has been preserved and incorporated into the redesign of the interior. WCRA is delighted to be involved with this historic project through our economic development loan program.

The borrower is Firestation Seven Associates (FS7), a nonprofit formed in 1987 to own and manage this commercial building that was gifted by the City of Seattle. Originally FS7 was comprised of three nonprofits who all used the building as their primary place of business. In 2015, with the assistance of a WCRA economic development loan, EW bought out the other two members, who had moved out years earlier.

EW is a nonprofit community design center serving nonprofits and under-represented communities throughout Washington State. It was formed in 1970, on the first Earth Day, by a group of architecture students who wanted to help solve urban problems with their design skills. The founders resolved to provide professional assistance to community organizations of limited means so those organizations could launch, preserve, and sustain communities throughout greater Seattle.

Rocker Tucker is the current Executive Director of EW. He says, "The work we do is important because it ensures that people and organizations that might not have access to architectural services are provided with quality design and high-performing places to live, gather, and work." Over half of their projects involve affordable housing, serving populations that range from 30% - 80% of AMI. Other projects include farmworker, senior, and group housing as well as community and child care centers. All work is performed with a focus on environmental stewardship. EW has been practicing community design since their inception and is the only firm in Washington State that does so. This process allows communities to become intimately involved with the design of their project from beginning to end. Christina Congdon, Project and Operations Manager at EW, explains that community design, which employs specially trained architects, produces insight into the specific needs of each community. "Different cultures and communities have different needs and as architects we don't really know them unless we engage," she says.

> "Different cultures and communities have different needs and as architects we don't really know them unless we engage."
>
> *Christina Congdon*
> *Project & Operations Manager*

Towne Square

Towne Square is a 40-unit affordable housing project located in Washougal that was built in 1997. Through WCRA's tax exempt bond program, it was rehabilitated and preserved as affordable housing in 2013. The purchaser of the bonds was WCRA member North Cascades Bank, a division of Glacier Bank. The borrower is REACH Community Development, a nonprofit housing development company based in Portland, Oregon. REACH has developed over 1600 units of affordable housing including new construction, renovations, and mixed use projects. They also provide community services at their properties and operate a program providing free home repairs to homeowners who require assistance due to age, disability, or low income.

Towne Square Apartments' 40 units are located within twenty two-story duplexes. The property also includes a leasing office, community center, laundry facility, and ample parking. The units are rented to tenants earning no more than 60% of AMI. The apartments are a mix of one and two-bedroom flats. The community center includes a computer room and full kitchen, and there is a playground on site. The renovations at the property were extensive. Exterior improvements included walkway replacement, new roofing, insulation and siding, repainting, lighting, landscaping, repaving the parking lot, and installation of a community gardening area. Interior upgrades included installation of double pane windows, new appliances, flooring, countertops, cabinets, ventilation systems, and baseboard heaters.

Towne Square is located near downtown Washougal, and offers easy freeway access. An elementary school, parks and playfields are all within walking distance. Residents agree that Towne Square's affordability is key to creating a happy and well-balanced life. Steven and Heather Hodge, who have lived at Towne Square for ten years, say having an affordable place to live "means the world to us." Longtime resident Vickie Armstrong adds that knowing she has an affordable home to call her own relieves stress, and that she has also made some great friends within the community. "Living here makes us feel as though we are worth something" she says. A property favorite is the new community garden area that features raised beds. Steven and Heather enjoy planting vegetables, and Vickie appreciates the beautiful flowers. Another aspect residents agree on is the superior management team. "The manager is awesome!" say Steven and Heather. Laurie James, a resident for 13 years, says "It really is helpful to me to have such low rent and support from management and REACH."

> "It really is helpful to me to have such low rent and support from management and REACH."
>
> *Laurie James*
> *Resident of 13 years*

Sunflower

This community land trust project was funded in 2017 through the Capital Plus! program, a partnership between the Washington State Housing Finance Commission and WCRA. The Sunflower property consists of 14 single family homes situated on a community land trust on Vashon Island. All of the units are reserved for homeowners making no more than 80% AMI.

The borrower is Vashon HouseHold (VHH), a nonprofit founded in 1989 by a group of community volunteers who were concerned about rising housing costs. They believed it was essential to create and maintain affordable housing on Vashon Island to protect the culture, character, and integrity of their neighborhoods. The mission of VHH is to provide and preserve affordable housing for those with modest incomes, enabling teachers, trades people, business owners, artists, seniors, and others to remain in their own community.

In addition to community land trusts, VHH has also preserved affordable apartments that were at risk of being converted to market-rate housing, and provided new and much needed senior housing in the area. They also helped to create an affordable apartment complex that includes three-bedroom units for larger households, which is the only property on Vashon Island to provide this, market rate or affordable.

Sunflower Community Land Trust is located within walking distance of Vashon's town center, and provides easy access to the main highway that traverses the island. Each of the 14 homes includes one bedroom, one bathroom, a loft, and an open floor plan. Large covered porches and individual yards complete each lot. Most homeowners have taken advantage of their yards by planting flowers and vegetables. The property also features a shared outdoor space for residents which includes a community garden and playground. The exteriors of the homes are painted with complementary modern colors, which adds to the sense of cohesion within this small community.

> Most homeowners have taken advantage of their yards by planting flowers and vegetables.

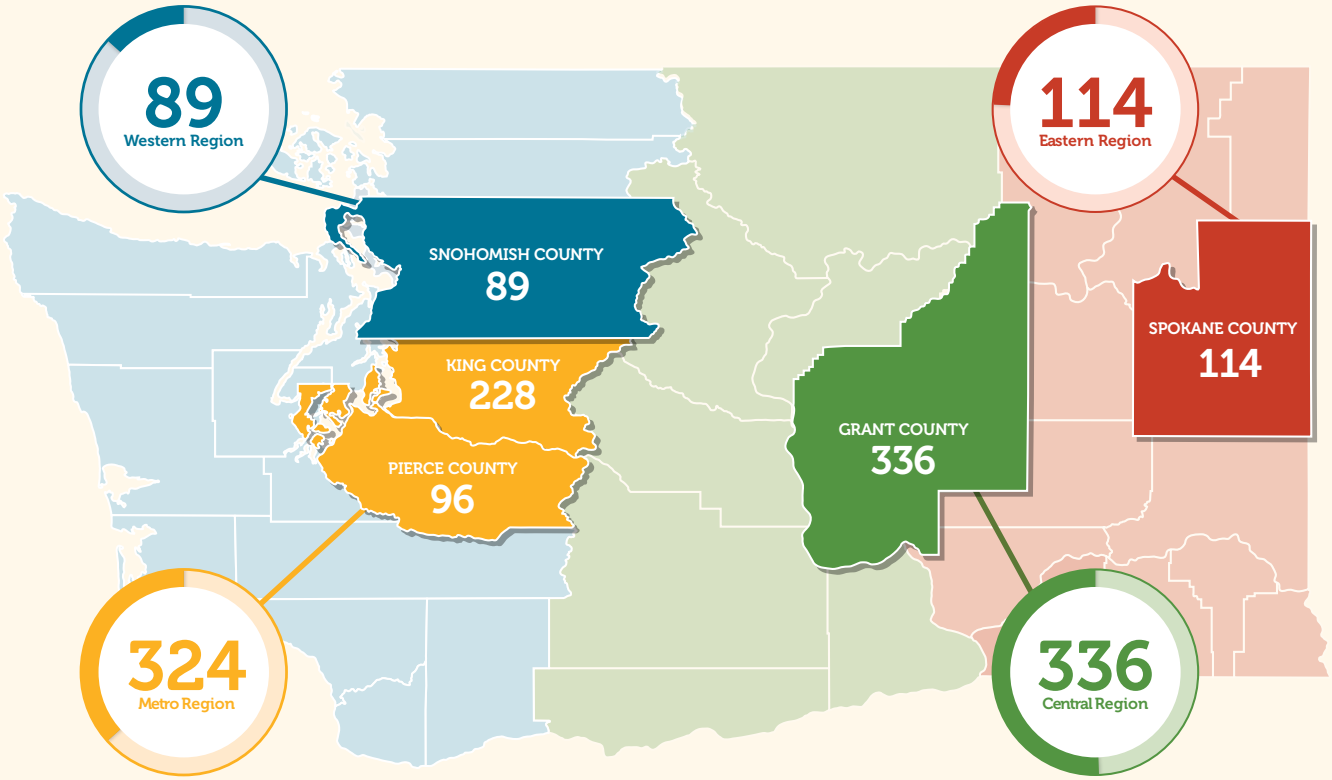
The Sunflower lease signed by homeowners includes a provision that homes re-sold will be available only to income-qualified buyers at a price determined by formula, meaning that the community will provide affordable housing on Vashon in perpetuity.

CAPITAL PLUS! is a $11.5 million loan fund for Washington nonprofits that need to finance housing, capital facilities owned and operated by the nonprofit, and/or equipment purchase or capital leases.

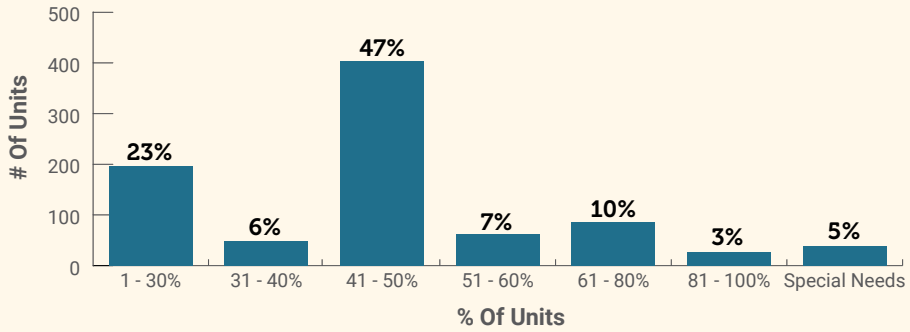
The program assists small and emerging nonprofit organizations that would otherwise not have access to favorable financing. Washington nonprofits that serve or provide community services with consideration to lower income persons or persons with special needs, or serve a unique or special purpose in the community, are eligible to apply for financing. Loans may be in any amount up to a maximum of $750,000 with terms up to 10 years. The program is a partnership of the Washington Community Reinvestment Association and the Washington State Housing Finance Commission.

The Capital Plus! program has received national recognition by the National Council of State Housing Agencies. During the 2018 annual State Housing Finance Agencies conference, Capital Plus! was declared the winner of the Special Needs Housing category, which recognizes programs that best provide affordable housing and services for persons with special needs.

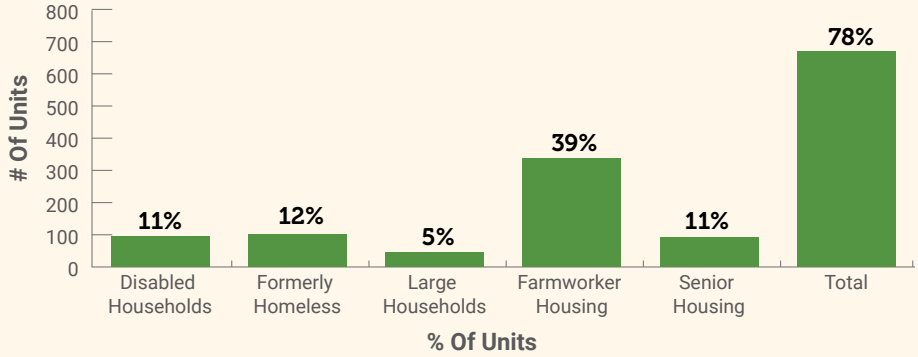
Approved and Funded Units by County, FY 2018



FY 2018 Units by Income Served, % of AMI



FY 2018 Units Reserved for Specific Populations



FY 2018 LOANS

FUNDED

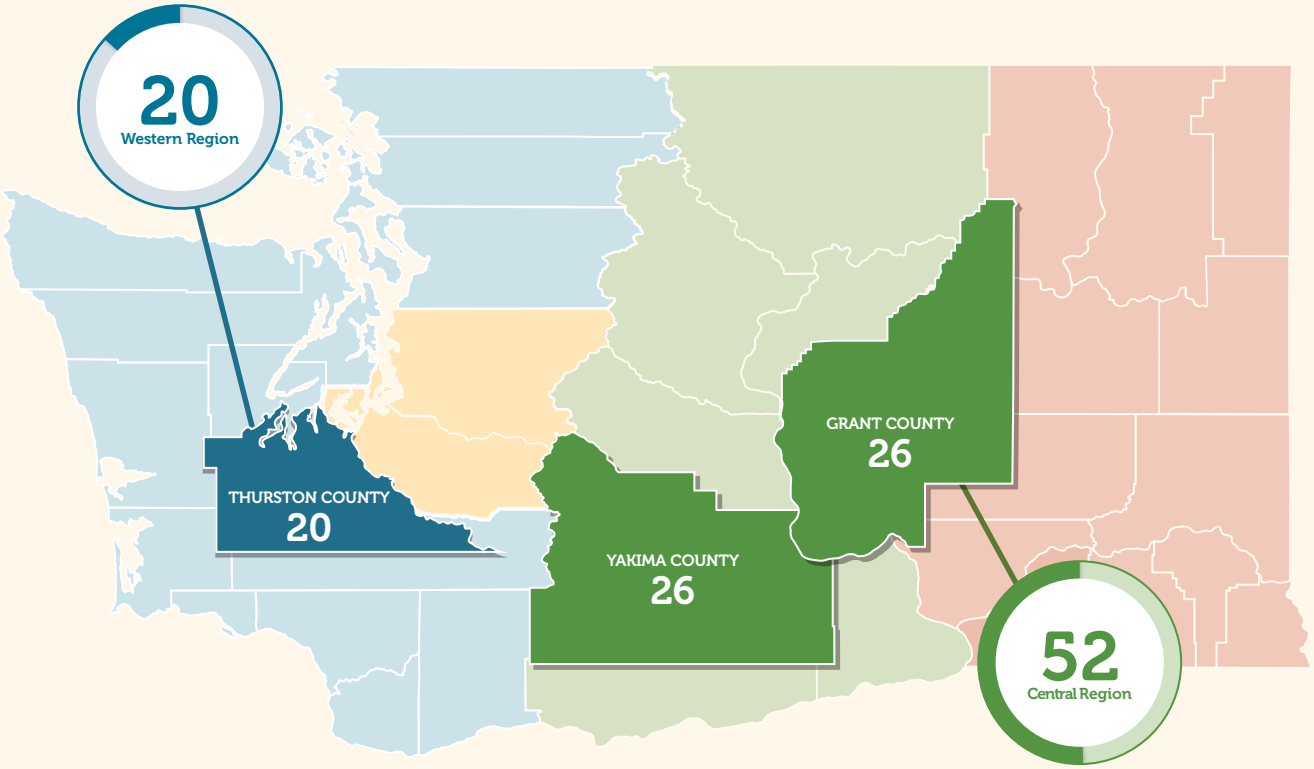
Amount	$17,663,000
# of Units	512
Sq. Ft. Economic Development	0

APPROVED

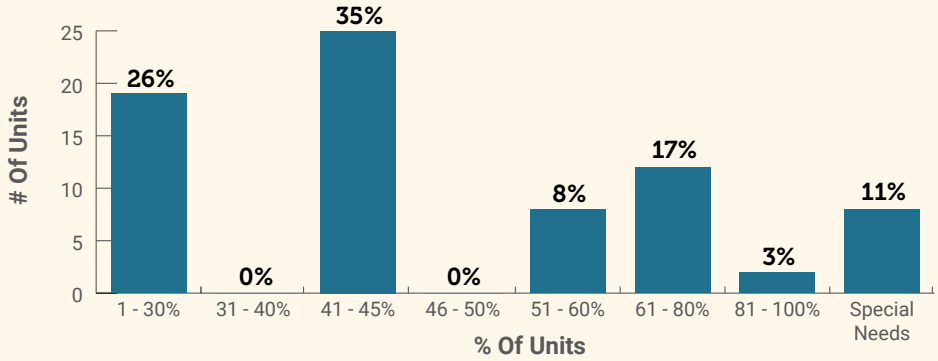
Amount	$22,825,100
# of Units	450
Sq. Ft. Economic Development	18,260

Refinance And Preservation

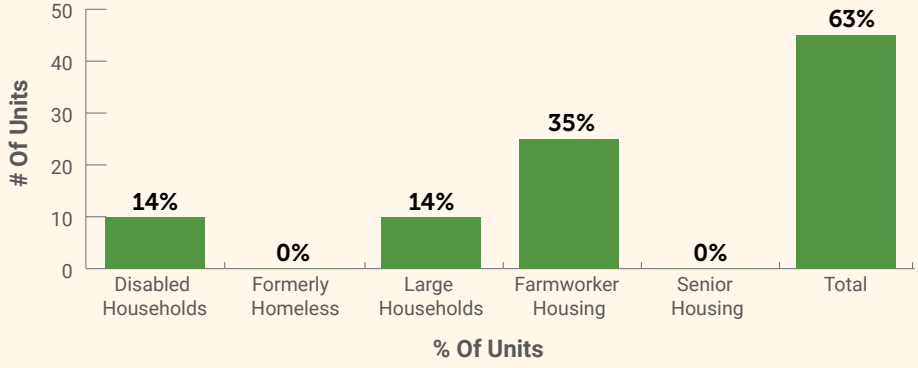
Approved And Funded Units By County, Fy 2018



FY 2018 Units by Income Served, % of AMI



FY 2018 Units Reserved for Specific Populations



FY 2018 LOANS

Refinance and Preservation

FUNDED

Amount	$815,000
# of Units	52
Sq. Ft. Economic Development	0

APPROVED

Amount	$1,350,000
# of Units	72
Sq. Ft. Economic Development	0

Report of Independent Auditors and Consolidated Statements

To the Board of Directors Washington Community Reinvestment Association and Subsidiary

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Washington Community Reinvestment Association and Subsidiary (the Association), which comprise the consolidated statements of financial condition as of September 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 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 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 Washington Community Reinvestment Association and Subsidiary as of September 30, 2018 and 2017, and the results of their activities and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Everrett, Washington
November 16, 2018

Consolidated Statements of Financial Condition

ASSETS

	September 30, 2018	September 30, 2017
CASH AND CASH EQUIVALENTS	$ 1,702,664	$ 1,688,648
INTEREST-BEARING DEPOSITS	2,213,416	1,690,211
INTEREST RECEIVABLE	488,685	513,180
ACCOUNTS RECEIVABLE AND PREPAID EXPENSES	86,155	73,825
LOANS HELD FOR SALE	7,615,570	10,946,845
LOANS HELD FOR INVESTMENT - MEMBER INSTITUTIONS, net	84,092,817	80,439,450
LOANS HELD FOR INVESTMENT - WSHFC, net	5,605,774	6,385,012
LOANS HELD FOR INVESTMENT - RESERVE, net	45,552	98,471
EQUIPMENT, net	12,284	3,769
Total assets	$ 101,862,917	$ 101,839,411

LIABILITIES AND UNRESTRICTED NET ASSETS

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 287,224	$ 268,713
INTEREST PAYABLE	405,536	431,217
DEFERRED RENT PAYABLE	8,000	4,000
DEFERRED REVENUE	784	784
LOANS PAYABLE - WSHFC	5,634,080	6,420,922
NOTES PAYABLE - MEMBER INSTITUTIONS	90,947,710	90,676,152
Total liabilities	97,283,334	97,801,788
UNRESTRICTED NET ASSETS	4,579,583	4,037,623
Total	$ 101,862,917	$ 101,839,411

Consolidated Statements of Activities

	Years Ended September 30,	
	2018	2017
REVENUES		
Interest income	$ 5,670,387	$ 6,009,688
Agent fee income	107,100	111,688
Loan fees	65,549	75,248
Gain on sale of loans	262,886	-
Contributions and grants	10,000	-
Construction loan review revenue	176,251	204,699
Total revenues	6,292,173	6,401,323
EXPENSES		
Interest expense	4,501,198	4,818,895
Salaries and related expenses	791,734	749,976
Professional fees	228,880	268,591
Office expenses	126,707	119,467
Other expenses	92,694	100,334
Contributions and grants	9,000	16,500
Total expenses	5,750,213	6,073,763
CHANGE IN UNRESTRICTED NET ASSETS	541,960	327,560
Unrestricted net assets, beginning of year	4,037,623	3,710,063
Unrestricted net assets, end of year	$ 4,579,583	$ 4,037,623

Consolidated Statements of Cash Flows

	Years Ended September 30, 2018	Years Ended September 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from		
Loan fees	$ 13,733	$ 52,528
Other fees	26,499	38,155
Agent fee income	106,930	111,518
Interest	5,695,053	5,996,134
Contributions and Grants	10,000	-
Construction loan review revenue	165,366	210,456
	6,017,581	6,408,791
Cash paid to		
Employees	(833,559)	(803,392)
Vendors	(461,131)	(510,146)
Prepayment fees	-	(5,353)
Interest	(4,526,880)	(4,809,728)
	(5,821,570)	(6,128,619)
Net cash from operating activities	196,011	280,172
CASH FLOWS FROM INVESTING ACTIVITIES		
Origination of loans held for investment	(17,633,000)	(6,642,000)
Loan principal collected on loans held for investment from member institutions and WSHFC	4,677,864	3,546,755
Proceeds from sale of loans	13,823,553	-
Purchase of equipment	(11,923)	(3,053)
Purchase of interest-bearing deposits	(1,686,060)	(1,296,700)
Maturity of interest-bearing deposits	1,162,855	1,282,495
Net cash from investing activities	333,289	(3,112,503)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable from member institutions and WSHFC related to loans held for investment	17,633,000	6,642,000
Principal repayments on notes payable from member institutions and institutions and loans payable to WSHFC related to loans held for investment	(4,587,617)	(3,712,415)
Principal repayment of notes payable on loans sold	(13,560,667)	-
Net cash from financing activities	(515,284)	2,929,585
NET CHANGE IN CASH AND CASH EQUIVALENTS	14,016	97,254
CASH AND CASH EQUIVALENTS		
Beginning of year	1,688,648	1,591,394
End of year	$ 1,702,664	$ 1,688,648

Consolidated Statements of Activities

	Years Ended September 30,	
	2018	2017
RECONCILIATION OF CHANGE IN UNRESTRICTED NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in unrestricted net assets	$ 541,960	$ 327,560
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities		
Depreciation	3,149	4,729
Gain on sale	(262,886)	-
Loss on disposal of equipment	259	-
Change in operating assets and liabilities		
Interest receivable	24,495	(13,723)
Accounts receivable and prepaid expenses	(12,330)	(1,304)
Deferred loan fees	(95,466)	(40,213)
Accounts payable, accrued liabilities, and deferred revenue	18,511	(7,319)
Interest payable	(25,681)	9,167
Deferred rent payable	4,000	1,275
NET CASH FROM OPERATING ACTIVITIES	$ 196,011	$ 280,172
NONCASH TRANSACTIONS		
Noncash transfer from loans held for investment to loans held for sale	$ 10,229,392	$ 10,946,845

Notes to Consolidated Financial Statements

NOTE 1 – Organization and Principles of Consolidation

The Washington Community Reinvestment Association (WCRA) began operations on February 10, 1992, as a private not-for-profit organization established to provide permanent financing and technical assistance to facilitate the development of affordable housing in the state of Washington and to otherwise support community development and redevelopment needs. Funding is provided by member institutions under the Credit and Security Agreements (the Agreements) based on the agreed-upon amounts committed by each member. The consolidated financial statements include the transactions of the Washington Community Reinvestment Association and its wholly owned subsidiary, 1200 Fifth LLC (collectively, the Association). 1200 Fifth LLC was formed to own real property acquired through default from the Association's portfolio. Additionally, 1200 Fifth LLC is utilized for performing loan agent duties for the Association. All significant intercompany transactions and balances have been eliminated in consolidation.

The Association has a revolving loan and investment fund. Loans originated from the revolving loan fund earn interest equal to the applicable U.S. government securities rate consistent with the term of the underlying loan and are secured by real estate. The Association makes grants to nonprofit entities based on an annual amount determined by the Board of Directors each year.

The Association has a program to assist potential borrowers in obtaining permanent financing for multifamily projects through tax-exempt bonds purchased by the Association's members. The Association provides these borrowers access to its members and assists in document preparation but does not underwrite the bonds. Direct investments from the Association's members are made to the borrower, with the Association collecting a fee for its assistance, as well as servicing the bonds.

Effective May 28, 2002, the Association entered into a contract with the State of Washington Department of Commerce (Commerce) (formerly the Department of Community, Trade, and Economic Development's (CTED) Office of Community Development) for the purpose of providing construction loan review and evaluation for the Housing Trust Fund construction lending program that provides loans to low income and special needs housing programs and providers to construct and rehabilitate affordable housing in the state of Washington. On October 1, 2015, the Association entered into a new contract with Commerce covering the same services as the previous contract.

Beginning October 25, 2012, the Association entered into contracts with the National Equity Fund (NEF), a tax credit investor. The purpose for these contracts is to provide construction oversight and funds disbursement. NEF is a national syndicator of low income housing tax credits used to revitalize communities and create economic opportunities. On September 26, 2016, the Association entered into a new contract with NEF covering substantially the same services as the previous contracts.

Effective February 7, 2003, the Association entered into an agreement (the WSHFC Agreement) for a revolving line of credit from the Washington State Housing Finance Commission (the Commission or WSHFC) of up to $3,000,000, which has increased incrementally to $9,000,000 at September 30, 2018. This line of credit is for the purpose of making loans to serve nonprofit organizations whose needs for small loan amounts make conventional financing or financing through bonds too costly and inefficient. In the event of default of loans made by the Association with funds borrowed under this revolving line of credit, the Commission, at its sole option, retains the right of assignment, without recourse or warranty, of the loans made in full satisfaction of the amounts borrowed under the line of credit. If such assignment option is not exercised, the Association is not required to repay funds borrowed under this revolving line of credit. WSHFC loans are included in loans held for investment - WSHFC in the consolidated statements of financial condition.

Effective September 1, 2009, the Association entered into a contract with WSHFC for the purposes of providing construction overview and other services relating to WSHFC's program to create affordable housing in the state of Washington. In June 2013, with no further WSHFC programs for construction projects, this contract was terminated. On October 2, 2012, the Association entered into a servicing agreement with WSHFC, which remains in effect to date.

NOTE 2 – Summary of Significant Accounting Policies

The consolidated financial statements of the Association have been prepared on the accrual basis. Under accounting principles generally accepted in the United States of America, the Association is required to report 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. All net assets of the Association are classified as unrestricted. The significant accounting policies followed are described below.

Cash and cash equivalents – Cash and cash equivalents are any highly liquid investment with a remaining maturity of three months or less at the date of purchase.

Interest-bearing deposits – Interest-bearing deposits consist of certificates of deposit and money market accounts and are presented at cost and may exceed federally insured limits.

Equipment – Purchased equipment is recorded at cost, and donated equipment is recorded at estimated fair value on the date of donation. All equipment is depreciated over estimated useful lives of three to five years on a straight-line basis. Expenditures for maintenance and repairs are charged to expense as incurred.

Loans held for sale – The Association will sometimes sell loans in order to manage their lending portfolio. Once management identifies a loan or pool of loans, the loans are transferred from held for investment to held for sale. Loans originated or transferred and held for sale are carried at the lower of cost or fair value as determined by aggregate outstanding commitments from investors or current investors' yield requirements. Net unrealized losses, if any, are recognized through a valuation allowance by a charge to income. Nonrefundable fees and direct loan origination costs related to loans held for sale are deferred and recognized as part of the gain on sale when the loans are sold or paid off. There were $7,615,570 and $10,946,845 of loans held for sale at September 30, 2018 and 2017, respectively.

Transfers of financial assets – Transfers of an entire financial asset, a group of financial assets, or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Association, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Association does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Loans held for investment – member institutions – Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at the principal amount outstanding, net of unamortized nonrefundable loan fees and related direct loan origination costs. Net deferred loan origination fees and costs are recognized in interest income over the loan term using a method that generally produces a level yield on the unpaid loan balance. Interest is accrued primarily on a simple interest basis on the outstanding principal balance of the loan. Loans held for investment – member institutions consist of loans originated under the Association's Credit and Security Agreements.

Loans held for investment – WSHFC – Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at the principal amount outstanding, net of unamortized nonrefundable loan fees and related direct loan origination costs. Net deferred loan origination fees and costs are recognized in interest income over the loan term using a method that generally produces a level yield on the unpaid loan balance. Interest is accrued primarily on a simple interest basis on the outstanding principal balance of the loan. Loans held for investment – WSHFC consist of loans originated under the WSHFC Agreement. Based on the WSHFC Agreement, the Association has no liability under the Agreement for the payment of loans, and the loans are without recourse or warranty to the Association.

Loans held for investment – Reserve – Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at the principal amount outstanding. Interest is accrued primarily on a simple interest basis on the outstanding principal balance of the loan. Loans held for investment – Reserve consist of direct revolving loans for nonprofit projects originated under the WCRA Reserve and Investment Policy, established by the

WCRA board of directors in an aggregate amount not to exceed $400,000.

Nonaccrual and impaired loans – Nonaccrual loans are those for which management has discontinued accrual of interest because there exists significant uncertainty as to the full and timely collection of either principal or interest, or because such loans have become contractually past due 90 days with respect to principal or interest.

When a loan is placed on nonaccrual, all previously accrued but uncollected interest is reversed against current-period interest income. All subsequent payments received are applied first to the payment of principal and then to the payment of accrued interest. Interest income is accrued at such time as the loan is brought fully current as to both principal and interest, and, in management's judgment, such loans are considered to be fully collectible.

Loans are considered impaired when, based on current information, management determines it is probawble that the Association will be unable to collect all amounts due according to the terms of the loan agreement, including scheduled interest payments. Impaired loans are carried at the lower of the recorded investment in the loan, the estimated present value of expected future cash flows discounted at the loan's effective date, or the fair value of the collateral if the loan is collateral-dependent.

Allowance for loan losses – The Association maintains an allowance for loan losses to absorb probable losses inherent in the loan portfolio. The allowance is based on ongoing quarterly assessments of the probable estimated losses inherent in the loan portfolio. The allowance is increased by the provision for loan losses, which is charged against current-period operating results and decreased by the amount of charge-offs, net of recoveries.

The Association's methodology for assessing the appropriateness of the allowance consists of several key elements, including the general allowance and specific allowance.

The general allowance is calculated by applying a loss percentage factor to the portfolio loans based on the internal credit grading and classification system and current economic and business conditions that could affect the collectability of the portfolio. These factors may be adjusted for significant events, in management's judgment, as of the evaluation date.

Specific allowances are established when determined necessary for impaired loans using the valuation approaches described above, as well as known current business conditions that may affect the Association. Impairment losses are recognized by adjusting an allocation of the existing allowance for loan losses.

Rate lock commitments on loans and notes payable – The Association enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). Rate lock commitments on loans that are intended to be sold are considered to be derivatives. The Association's cost of borrowing to fund the originated loans held for sale is based on the interest rate of such loans. The commitments to the Association to borrow from member institutions related to the loans held for sale are also derivatives. These derivatives are recorded at fair value, with the change in fair value recorded in earnings. Fair value is based on fees currently charged to enter into similar agreements and, for fixed-rate commitments, also considers the difference between current levels of interest rates and the committed rates. These commitments do not expose the Association to interest rate risk because the associated risk is borne by the member institutions. At September 30, 2018 and 2017, there were no rate lock commitments on loans that are intended to be held for sale.

Escrow – Customer funds held for construction draws and operating replacement and completion reserves are not recorded on the books of the Association, because such accounts are held by another institution for the benefit of borrowers or National Equity Fund. At September 30, 2018 and 2017, the amount of funds held for customers in escrow was $13,305,120 and $13,809,772, respectively.

Contributions received – Contributions received from institutions for membership in the Association and all other contributions are recorded in the consolidated statements of activities. Any restricted contributions received and spent in the same year are treated as unrestricted contributions. There was no restricted cash at September 30, 2018 and 2017.

Functional allocation of expenses – To provide information regarding service efforts, the costs of providing the Association's programs have been presented in the consolidated statements of activities. The Association effectively operates as a single program, and, therefore, no attempt has been made to segregate general and administrative expenses. In addition, the Association's fundraising activities are immaterial.

Use of estimates – The preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements. Changes in these estimates and assumptions are considered reasonably possible and may have a material impact on the consolidated financial statements. The significant estimate includes the allowance for loan losses.

Tax status – On June 17, 1996, the Association received an Internal Revenue Service determination letter reaffirming the Association's status as a publicly supported organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Association adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740-10, *Income Taxes*, relating to accounting for uncertain tax positions on October 1, 2010, which had no financial statement impact to the Association. The Association recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Association recognizes interest and penalties related to income tax matters in noninterest expense. The Association had no unrecognized tax benefits that would require an adjustment to the October 1, 2010, beginning balance of net assets and had no unrecognized tax benefits at September 30, 2018 or 2017. The Association files an exempt organization return in the U.S. federal jurisdiction.

Fair value measurements – Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements follow a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources, whereas unobservable inputs reflect the Association's estimates about market data. In general, fair values determined by Level 1 inputs use quoted prices for identical assets or liabilities traded in active markets that the Association has the ability to access. Fair values determined by Level 2 inputs use inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. At September 30, 2018 and 2017, there were no assets or liabilities measured at fair value on a recurring or nonrecurring basis

Subsequent events – Subsequent events are events or transactions that occur after the consolidated statement of financial condition date but before the consolidated financial statements are available to be issued. The Association recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of financial condition, including the estimates inherent in the process of preparing the consolidated financial statements. The Association's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial condition but arose after the consolidated statement of financial condition date and before the consolidated financial statements are available to be issued.

The Association has evaluated subsequent events through November 16, 2018, which is the date the consolidated

financial statements are available to be issued, and no subsequent events occurred requiring accrual or disclosure.

NOTE 3 – Equipment

A summary of equipment at September 30 is as follows:

	2018	2017
Equipment	$ 58,307	$ 52,587
Less accumulated depreciation	(46,023)	(48,818)
	$ 12,284	$ 3,769

Depreciation expense for the years ended September 30, 2018 and 2017, was $3,149 and $4,729, respectively.

NOTE 4 – LOANS HELD FOR INVESTMENT

Loans held for investment consist of the following at September 30:

	2018	2017
Real estate		
Non-tax-credit loans	$ 37,427,537	$ 31,594,993
Tax-credit loans	47,512,137	49,754,732
Total member institution loans	84,939,674	81,349,725
Reserve loans	45,552	98,471
WSHFC loans	5,582,908	6,371,067
Total real estate	90,568,134	87,819,263
Less		
Allowance for loan losses	(379,110)	(379,110)
Deferred loan fees	(444,881)	(517,220)
Total	$ 89,744,143	$ 86,922,933
LOANS HELD FOR INVESTMENT - MEMBER INSTITUTIONS, net	$ 84,092,817	$ 80,439,450
LOANS HELD FOR INVESTMENT - WSHFC, net	5,605,774	6,385,012
LOANS HELD FOR INVESTMENT - RESERVE, net	45,552	98,471
Total	$ 89,744,143	$ 86,922,933

Changes in the allowance for loan losses for the years ended September 30 were as follows:

2018	Real Estate Non-Tax-Credit	Real Estate Tax-Credit	Unallocated	2018
Allowance for loan losses, beginning of year	$ 178,552	$ 148,602	$ 51,956	$ 379,110
Provision (benefit) for loan losses	32,967	(7,259)	(25,708)	-
Allowance for loan losses, end of year	$ 211,519	$ 141,343	$ 26,248	$ 379,110

2017	Real Estate Non-Tax-Credit	Real Estate Tax-Credit	Unallocated	2017
Allowance for loan losses, beginning of year	$ 195,582	$ 156,126	$ 27,402	$ 379,110
Provision (benefit) for loan losses	(17,030)	(7,524)	24,554	-
Allowance for loan losses, end of year	$ 178,552	$ 148,602	$ 51,956	$ 379,110

During the year ended September 30, 2018, the Association sold loans to member institutions as described in Note 9. No loans were sold during the year ended September 30, 2017.

The loans originated by the Association are secured by a first deed of trust on the subject property of each loan. Loans are collateralized by real property or other security located within the state of Washington.

Credit quality indicator – The Association classifies lower quality loans as substandard, doubtful, or loss. A loan is considered substandard if it is inadequately protected by the current net worth and pay capacity of the borrower or of any collateral pledged. Substandard assets include those characterized by the distinct possibility that the Association will sustain some loss if the deficiencies are not corrected. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses present make collection or liquidation in full highly questionable and improbable, on the basis of currently existing facts, conditions, and values. Loans classified as loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted.

When the Association classifies problem loans as either substandard or doubtful, it may establish a specific allowance to address the risk specifically or the Association may allow the loss to be addressed in the general allowance. General allowances represent loss allowances that have been established to recognize the inherent risk associated with lending activities, but that, unlike specific allowances, have not been specifically allocated to particular problem assets. Assets that do not currently expose the Association to sufficient risk to warrant classification as substandard or doubtful but possess identified weaknesses are designated as either watch or special mention assets. At September 30, 2018 and 2017, the Association had no loans classified as doubtful or substandard.

The following tables represent the internally assigned grade as of September 30, 2018 and 2017, by type of loans:

Credit Risk Profile by Internally Assigned Grade

September 30, 2018	Real Estate		
	Non-Tax-Credit	Tax-Credit	Total
Member institution loans			
Grade			
Pass	$ 36,684,572	$ 46,013,146	$ 82,697,718
Watch	371,199	744,342	1,115,541
Special mention	371,766	754,649	1,126,415
	37,427,537	47,512,137	84,939,674
Reserve loans			
Grade			
Pass	45,552	-	45,552
WSHFC loans [1]			
Grade			
Pass	4,872,665	-	4,872,665
Watch	710,243	-	710,243
	5,582,908	-	5,582,908
	$ 43,055,997	$ 47,512,137	$ 90,568,134

(1) Based on the WSHFC Agreement, the Association has no liability under the Agreement for the payment of loans, and the loans are without recourse or warranty to the Association.

September 30, 2017	Real Estate		
	Non-Tax-Credit	Tax-Credit	Total
Member institution loans			
Grade			
Pass	$ 31,070,254	$ 48,079,796	$ 79,150,050
Watch	141,119	898,118	1,039,237
Special mention	383,620	776,818	1,160,438
	31,594,993	49,754,732	81,349,725
Reserve loans			
Grade			
Pass	98,471	-	98,471
WSHFC loans [1]			
Grade			
Pass	6,074,671	-	6,074,671
Watch	296,396	-	296,396
	6,371,067	-	6,371,067
	$ 38,064,531	$ 49,754,732	$ 87,819,263

(1) Based on the WSHFC Agreement, the Association has no liability under the Agreement for the payment of loans, and the loans are without recourse or warranty to the Association.

There were no impaired loans, troubled debt restructured loans, or nonaccrual loans at September 30, 2018 and 2017.

There were no loans past due more than 90 days and still accruing interest at September 30, 2018 and 2017.

There were no loans past due 30 to 90 days at September 30, 2018 and 2017.

Note 5 – Notes Payable – Member Institutions

Funding for loans originated by the Association has been provided by member institutions under a revolving line of credit as specified in the Agreement for Pool 1. As of September 30, 2018 and 2017, the maximum limit on the line of credit was $84,575,000 and $92,975,000, respectively. The outstanding amounts were $67,916,883 (of which $51,624,436 was revolving and $16,292,447 was nonrevolving) and $67,377,791 (of which $62,394,637 was revolving and $4,983,154 was nonrevolving) as of September 30, 2018 and 2017, respectively, and $11,014,100 was approved to be funded for loan commitments (Note 8) as of September 30, 2018. As stated in the Agreement, the terms of the Association's borrowings from member institutions are substantially the same as the terms of the loans the Association will originate. The member institutions receive an assignment of collateral of the specific loans equal to their respective equity percentage interest in each specific note payable. A nominal interest rate spread is retained by the Association to cover operating expenses.

The rate of interest on notes payable to member institutions on amounts borrowed prior to September 15, 1997, was determined based on the applicable rate, at the time the loan was funded, of U.S. government securities with a term consistent with the term of the underlying note payable plus .75%. The rate of interest on amounts borrowed after September 15, 1997, is determined based on the applicable rate, at the time the loan is funded, on U.S. government securities with a term consistent with the term of the underlying note payable plus a minimum of 1%.

Effective September 15, 1997, the Association entered into a revolving line of credit, as specified in the Agreement for Pool 2, from certain member institutions to provide additional funds for new loans and loan commitments to maintain lending capacity. As of September 30, 2018 and 2017, the maximum limit on the line of credit was $26,312,000. The outstanding amounts were $18,554,822 (of which $15,774,352 was revolving and $2,780,470 was nonrevolving) and $18,738,379 (of which $16,025,909 was revolving and $2,712,470 was nonrevolving) as of September 30, 2018 and 2017, respectively, and $6,335,000 was approved to be funded for loan commitments (Note 8) on the line of credit as of September 30, 2018. Similar to the revolving line of credit above, the member institutions receive an assignment of collateral of the specific loans equal to their respective equity percentage interest in each specific note payable. The interest rate on notes payable to member institutions for the revolving line of credit is a minimum of 1% over the applicable rate on U.S. government securities. A nominal interest rate spread is retained by the Association to cover operating expenses.

Effective May 15, 2001, the Association entered into a line of credit, as specified in the Agreement for Pool 3, from certain member institutions for the purpose of economic development lending. As of September 30, 2018 and 2017, the maximum limit on the line of credit was $11,025,000 and $7,500,000, respectively. As of September 30, 2018 and 2017, the outstanding amounts were $4,476,005 and $4,559,982, respectively, and $3,225,000 was approved to be funded for loan commitments (Note 8) on the line of credit as of September 30, 2018. Of these outstanding balances, no amounts were nonrevolving as of September 30, 2018 and 2017. Similar to the revolving lines of credit above, the member institutions receive an assignment of collateral of the specific loans equal to their respective equity percentage interest in each specific note payable. The interest rate on notes payable to member institutions for the revolving line of credit is a minimum of 1.50% over the applicable rate on U.S. government securities. A nominal interest rate spread is retained by the Association to cover operating expenses.

Future minimum payments of notes payable – member institutions as of September 30, are as follows:

2019	$ 2,268,908
2020	2,940,679
2021	3,539,310
2022	5,647,809
2023	9,095,216
Thereafter	67,455,788
	$ 90,947,710

Notes payable – member institutions, at September 30, 2018, bear interest at rates ranging from 2.61% to 7.60%. The notes are payable in monthly installments, including principal and interest.

Note 6 – Loans Payable – WSHFC

Funding for loans originated by the Association have been provided by the Commission under a revolving line of credit as specified in the WSHFC Agreement. The maximum limit on the line of credit is $9,000,000. As of September 30, 2018 and 2017, the outstanding amounts were $5,634,080 and $6,420,922, respectively, and $275,000 was approved to be funded for loan commitments (Note 8) as of September 30, 2017. A nominal interest rate spread is retained by the Association to cover operating expenses. The interest rate on the loans charged by the Commission for the revolving line of credit is 2%, consistent with the terms of the WSHFC Agreement.

Future minimum payments of loans payable – WSHFC as of September 30, are as follows:

2019	$ 796,220
2020	699,169
2021	1,014,758
2022	234,791
2023	860,385
Thereafter	2,028,757
	$ 5,634,080

Note 7 – Contributions from Member Institutions

Contributions from member institutions were made by the Association's member institutions to cover initial operating expenses. Initial contributions from member institutions were determined to cover the first two years of operating expenses. The first installment was paid prior to September 30, 1992, and the second installment of approximately $57,000 was paid during 1993. In addition, members who join the Association subsequent to the original formation are assessed a one-time contribution. During the year ended September 30, 2018 and 2017, there were no new member assessments collected.

Members are admitted for a two-year term and are automatically renewed for subsequent two-year terms unless a member resigns. Resignations are only accepted during the month of January, following completion of the member's current two-year term, and will be effective on the first day of February. New members may join on the first day of any month throughout the year. The Board of Directors may require additional contributions of members in future years. If members do not make any required contribution within 60 days of when it becomes payable, the Board of Directors may terminate their memberships.

Note 8 – Commitments

The principal balance related to loan commitments to borrowers and member institutions at September 30, 2018, was $20,849,100, all of which was related to affordable housing projects and economic development projects. Commitments to extend credit generally have fixed expiration dates. Because a portion of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Prior to extending commitments, the Association evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the borrower. Loans are collateralized by real property or other security located within the state of Washington.

Contractual future minimum rental payments for the Association's office lease as of September 30, are as follows:

2019	$ 95,114
2020	98,000
2021	101,000
2022	34,000
Thereafter	-
	$ 328,114

Rental expense for the years ended September 30, 2018 and 2017, was $98,984 and $91,644, respectively, and is included in office expenses on the consolidated statements of activities.

The Association's office lease expires in January 2022.

Contractual future minimum rental payments for the Association's copier lease as of September 30, 2018, is $2,537, due in 2019, when the lease expires.

Note 9 – Related Party Transactions

All cash and cash equivalents of the Association are on deposit with member institutions. The Association holds interest-bearing deposits with member institutions. Total related party interest-bearing deposits at September 30, 2018 and 2017, were $2,212,855 and $1,689,650, respectively.

On October 1, 2015, the Association assumed the agent duties through 1200 Fifth LLC.

During the year ended September 30, 2018, eight loans with a principal balance of $13,638,154 were sold at the unpaid principal balance, plus $100 per loan and a premium (if applicable), to various related parties. Unamortized net deferred fees on these eight loans of $104,020 were recognized in income at the date of sale. Proceeds on the sale of loans totaled $13,823,553 and a gain on sale of $262,886 was recognized during the year ended September 30, 2018.

Note 10 – Employee Savings Plan

The Association has a voluntary contribution 403(b) savings plan for all employees. For the years ended September 30, 2018 and 2017, no contributions were made by the Association to the plan.

The Association has an employer-funded 408(k) simplified employee pension plan for all eligible employees. The Association may make a contribution of up to 15% of each employee's total compensation, within certain limits. At September 30, 2018 and 2017, the Association accrued contribution expenses of $38,861 and $35,189, respectively. These amounts are generally paid out in the following fiscal year subject to Board approval.

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