



# Red Housing Fund

*Financial Statements*

*Year Ended December 31, 2022*



**PISENTI & BRINKER** LLP  
Certified Public Accountants & Advisors

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## Independent Auditor's Report

The Board of Directors  
RED Housing Fund  
Santa Rosa, California

### Opinion

We have audited the accompanying financial statements of RED Housing Fund (the "Organization"), which comprise the statement of financial position as of December 31, 2022, the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This responsibility 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

## Independent Auditor's Report (continued)


### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Santa Rosa, California  
April 13, 2023

**RED Housing Fund**  
**Statement of Financial Position**

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**December 31, 2022**

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**Assets**

**Current assets**

Cash and cash equivalents	\$ 7,300,212
Certificates of deposit	11,580,752

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**Long-term notes receivable, net** 2,474,936

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Total assets \$ 21,355,900

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**Liabilities and net assets**

**Current liabilities**

Accounts payable	\$ 64,010
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**Noncurrent liabilities**

Long-term loans, net	14,650,479
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Total liabilities 14,714,489

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**Net assets**

Without donor restrictions	819,031
With donor restrictions	5,822,380

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Total net assets 6,641,411

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**Total liabilities and net assets** \$ 21,355,900

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See accompanying notes.

**RED Housing Fund  
Statement of Activities**

**Year Ended December 31, 2022**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenues and other support</b>			
Grant income	\$ 569,661	\$ -	\$ 569,661
Contribution income	-	347,528	347,528
Interest income	184,378	-	184,378
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Total revenues and other support	754,039	347,528	1,101,567
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Net assets released from time restrictions	760,134	(760,134)	-
<hr/>			
Total revenue	1,514,173	(412,606)	1,101,567
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<b>Expenses</b>			
Program	951,485	-	951,485
Management and general	60,143	-	60,143
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Total expenses	1,011,628	-	1,011,628
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<b>Changes in net assets</b>	502,545	(412,606)	89,939
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<b>Net assets at beginning of year</b>	316,486	6,234,986	6,551,472
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<b>Net assets at end of year</b>	\$ 819,031	\$ 5,822,380	\$ 6,641,411

See accompanying notes.

**RED Housing Fund**  
**Statement of Functional Expenses**

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**Year Ended December 31, 2022**

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	<b>Program</b>	<b>Management and General</b>	<b>Total</b>
Outside services	\$ 304,750	\$ 56	\$ 304,806
Interest	265,828	-	265,828
Loan loss reserve	225,000	-	225,000
Management fees	112,500	-	112,500
Legal	36,668	17,049	53,717
Accounting fees	-	39,543	39,543
Program expenses	4,363	-	4,363
Insurance	2,017	1,000	3,017
Advertising and marketing	-	1,800	1,800
Licenses and permits	-	400	400
Amortization	359	-	359
Bank fees and service charges	-	295	295
<b>Total expenses</b>	<b>\$ 951,485</b>	<b>\$ 60,143</b>	<b>\$ 1,011,628</b>

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See accompanying notes.

**RED Housing Fund**  
**Statement of Cash Flows**

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**Year Ended December 31, 2022**

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**Increase (decrease) in cash and cash equivalents**

**Cash flows from operating activities**

Change in net assets	\$ 89,939
Adjustments to reconcile change in net assets to cash provided by operating activities:	
Increase to loan loss reserve	225,000
Amortization of debt issuance costs	359
Amortization of debt discount on below market rate loans	260,134
Amortization of origination fees on long-term note receivable	(7,117)
Partial debt forgiveness of long-term loan	(347,528)
Increase in operating liabilities:	
Accounts payable	38,174
<b>Net cash provided by operating activities</b>	<b>258,961</b>

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**Cash flows from investing activities**

Purchase of certificates of deposit	(11,580,752)
Net disbursements on long-term note receivable	(2,692,819)
<b>Net cash used in investing activities</b>	<b>(14,273,571)</b>

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**Cash flows from financing activities**

Net proceeds on long-term loans	972,500
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**Net decrease in cash and cash equivalents** (13,042,110)

Cash and cash equivalents at beginning of year 20,342,322

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Cash and cash equivalents at end of year \$ 7,300,212

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**Supplemental cash flow information:**

Cash paid during the year for interest	\$ 5,694
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See accompanying notes.



**Year Ended December 31, 2022**

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**Note A. Nature of the Organization**

RED Housing Fund (the “Organization”) is a not-for-profit organization that proposes building not just homes, but communities to support sustainable living in a rapidly changing world. The Organization intends to offer flexible financing to support the development of housing across income levels by offering subordinate loans to developers in Sonoma County that have projects meeting the Organization’s criteria: located on an infill site, mid to high-density development, residential or mixed-use residential, and situated within a transit-rich or planned area. The Organization is structured to be an efficient, effective, and a sustainable organization prepared to facilitate creation of housing that meets shared public policy and community-wide goals including increased density, transit-oriented development, protection of open space and community separators, improved energy efficiency, climate resilience and affordability, and equity. The Organization will jump-start the shared vision of the City of Santa Rosa and the County of Sonoma to harness regional action to meet our community’s diverse housing needs and to protect the environment, support economic vitality, and improve the quality of life for all the region’s residents.

**Note B. Summary of Significant Accounting Policies**

*Basis of Presentation*

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Net assets, revenues and other support and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

*Without Donor Restrictions* – Net assets that are not subject to donor-imposed restrictions. These also may be designated for specific purposes by action of the Board of Directors.

*With Donor Restrictions* – Net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization to meet the stipulations or that become unrestricted at the date specified by the donor or net assets subject to donor-imposed stipulations that are maintained permanently by the Organization.

*Net Assets Released from Restriction* – Net assets with donor restrictions are released to net assets without donor restrictions when the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed.

*Net Assets*

Net assets without donor restrictions are those net resources that bear no external restrictions and are generally available for use by the Organization.

Net assets with donor restrictions represent amounts received or committed with donor restrictions, which have not been expended for their designated purpose (purpose restricted) or amounts for general use in future periods (time restricted), or both.

**Year Ended December 31, 2022**

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**Note B. Summary of Significant Accounting Policies (continued)**

*Cash and Cash Equivalents*

Cash and cash equivalents include cash with financial institutions and highly liquid investments. The Organization considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

*Certificates of Deposit*

The Organization invests in various certificates of deposit which are carried at amortized cost, which approximates fair value. These certificates are classified as either current or noncurrent on the statement of financial position based on the contractual maturity date, with those in excess of 12 months classified as noncurrent.

*Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions based on management's knowledge and experience. Those estimates affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue, support, and expenses. Actual results could differ from those estimates.

*Long-Term Note Receivable*

The Organization has construction loans and term loans financing receivable agreements with borrowers for the purpose of funding the development of affordable housing, secured by deeds of trust on land. The Organization estimates an allowance for loan losses based on an internal risk rating of each loan at origination with the reserve ranging from 3.00% to 7.00%. The Organization may reserve an additional amount if repayment of loans becomes doubtful.

*Grants and Contributions*

Grants and contributions received and unconditional promises to give are measured at their fair values and are reported as increases in net assets without donor restrictions unless use of the contributed assets is specifically restricted by the donor. The Organization reports gifts and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restriction. Donor restricted contributions whose restrictions are fulfilled or expire within the same reporting period are reported as contributions without donor restrictions. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as net assets with donor restrictions until the payment is due unless the contribution is clearly intended to support activities of the current year or is received with permanent donor restrictions. Conditional promises are not recognized until all conditions on which they depend are substantially met.

**Year Ended December 31, 2022**

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**Note B. Summary of Significant Accounting Policies (continued)**

*Interest Income*

Interest income on loans receivable is recognized as earned in accordance with the loan terms. Net loan origination fees are deferred and amortized to interest income using the effective interest method over the contractual life of the loans.

*Income Taxes*

The Organization is a not-for-profit organization and is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and California Revenue and Taxation Code Section 23701(d). However, the Organization is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption, commonly referred to as unrelated business income. No income tax provision has been recorded for the year ended December 31, 2022, since management determined that the Organization had no unrelated business income.

*Imputed Interest Expense*

The Organization uses the long-term Applicable Federal Rates to determine the imputed interest on below market interest rate loans.

*Functional Allocation of Expenses*

The costs of providing the program and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefitted. These expenses are allocated on the basis of estimates of time and effort.

**Note C. Liquidity**

Financial assets are considered unavailable due to donor-imposed restrictions or the governing board has set aside funds for internal designations. Amounts available include donor-restricted amounts that will meet purpose restrictions within the next twelve months from the statement of financial position date. The Organization operates with a balanced budget and anticipates covering its general expenditures with existing working capital and by maintaining and expanding existing program and relationships with funders who have provided donations without restrictions and are willing to provide multi-year grants. The Organization does not have any donor-imposed restrictions that affect liquidity for the year ended December 31, 2022.

**Year Ended December 31, 2022**

**Note D. Long-Term Note Receivable**

During the year ended December 31, 2022, the Organization entered into long-term note receivable with three separate borrowers. The long-term note receivable consisted of the following as of December 31, 2022:

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Note receivable from a borrower to build affordable housing, with prepaid interest included in the loan origination fees of \$37,661 as of December 31, 2022, interest rate of 1.00% per annum, all outstanding principal and interest due June 1, 2025. The note may be converted from a construction loan to a term loan with the due date June 1, 2040, at the same interest rate, based on meeting the conversion conditions as described in the borrower's loan agreement.	\$ 2,400,000
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Note receivable from a borrower to build affordable by design market rate housing, with prepaid interest included in the loan origination fees of \$109,264 as of December 31, 2022, interest rate of 8.75% per annum, all outstanding principal and interest due December 1, 2024.	446,669
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Note receivable from a borrower to build affordable housing, with prepaid interest included in the loan origination fees of \$13,917 as of December 31, 2022, interest rate of 1.00% per annum, all outstanding principal and interest due February 16, 2024. The note may be converted from a construction loan to a term loan with the due date October 1, 2040, at the same interest rate, based on meeting the conversion conditions as described in the borrower's loan agreement.	58,400
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2,905,069

Less loan loss reserve	(225,000)
Less origination fees, net	(205,133)

**\$ 2,474,936**

Interest income from the amortization of origination fees amounted to \$7,117 for the year ended December 31, 2022.

**Year Ended December 31, 2022**

**Note E. Long-Term Loans Payable**

Long-term loans payable consisted of the following as December 31, 2022:

Loan payable to a municipal corporation to provide financing to support development housing projects that are consistent with project criteria adopted by Renewal Enterprise District ("RED"), with an interest rate of 0.00% per annum, payable in one lump-sum on October 29, 2041.	\$ 10,000,000
Loan payable to a municipal corporation to provide financing to support development housing projects that are consistent with project criteria adopted by RED, with an interest rate of 0.00% per annum, payable in one lump-sum on November 4, 2041. All or a portion of the loan may be forgiven in accordance with the loan requirements. The portion of the loan forgiven as of December 31, 2022 amounted to \$500,000.	9,500,000
Loan payable to a financial institution to originate construction and term loans for projects, with an interest rate of 2.50% per annum, accrued interest payable quarterly beginning January 1, 2023, until November 17, 2026, where principal and interest payable quarterly, with all outstanding principal and interest due on November 30, 2032.	1,000,000
	20,500,000
Debt discount on below market rate loans	(5,822,380)
Debt issuance costs	(27,141)
	\$ 14,650,479

During the year ended December 31, 2022, \$260,134 and \$359 of debt discount and debt issuance costs was amortized to interest expense, respectively.

**Year Ended December 31, 2022**

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**Note F. Net Assets**

Net assets with donor restrictions represent amounts received or committed with donor restrictions, which have not yet been expended for their designated purpose (purpose-restricted) or amounts for general use in future periods (time restricted). Net assets consisted of the following:

	Year Ended December 31, 2022
With donor restrictions:	
Implicit time restriction	\$ 5,822,380
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Total net assets with donor restrictions	5,822,380
Without donor restrictions:	
Undesignated	819,031
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Total net assets without donor restrictions	819,031
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Net assets	\$ 6,641,411

Net assets were released from donor restrictions by incurring expenses that satisfy the restricted purpose or by occurrence of the passage of time or other events specified by the donor. During the year ended December 31, 2022, \$760,134 was released from restrictions as the passage of time restrictions were met.

**Note G. Subsequent Events**

The Organization has evaluated subsequent events through April 13, 2023, the date on which the financial statements were available to be issued.

In March 2023, the Organization entered into a \$7 million long-term note receivable from a borrower for a market rate housing project, with all outstanding principal and interest due in March 2027.