



**RED HOUSING FUND
ANNUAL REPORT**

FY 2022

FOR THE PERIOD FROM JANUARY 1 – DECEMBER 31, 2022



TABLE OF CONTENTS

REPORT SUMMARY AND KEY FUND UPDATES	3
PIPELINE AND PORTFOLIO UPDATE	5
FINANCIAL SUMMARY AND COVENANT COMPLIANCE	8
APPENDIX 1: SUMMARY OF PORTFOLIO	14
APPENDIX 2: FUND FINANCIAL DETAILS	17



REPORT SUMMARY AND KEY FUND UPDATES

April 30, 2023

To the Stakeholders of the RED Housing Fund:

This Report (the “Report”) on the operations of the RED Housing Fund (the “Fund”) has been prepared to satisfy the reporting requirements set forth in the Fund’s various agreements with its stakeholders. The Reporting Period for this Report is the Fund’s second fiscal year (January 1, 2022, through December 31, 2022).

The creation of the RED Housing Fund was driven by the Renewal Enterprise District (“RED”), a joint powers authority with the County of Sonoma and City of Santa Rosa as Founding Members, to give developers in Sonoma County a new tool and source of financing to help advance urban, infill projects. The need for additional housing across the income spectrum in Sonoma County is acute and has only been exacerbated by the nearly annual fires that have devastated the region’s housing stock. Historically, developers have been unable to obtain sufficient financing from traditional sources to move dense, multifamily projects forward. The RED Housing Fund was created to further the goals of the RED and provide an additional source of funding for housing projects that align with the RED’s priorities – broadly, projects of higher density in transit rich, infill areas outside of wildfire hazard zones to support equity, climate resilience, and economic development in appropriately planned areas within Sonoma County.

Over the course of the Reporting Period, the Fund received and evaluated responses to its Notice of Funding Availability (NOFA), issued during the previous fiscal year. The Fund received ten responses to its NOFA, for projects supporting various levels of affordability, representing over \$30 million in requests financing and 800 new units of housing. After thorough consideration and review of these proposals, the Fund’s Board moved forward with offering term sheets to six of these projects, all of which were signed and returned shortly thereafter. Over the course of the fiscal year, the Fund proceeded with underwriting and celebrated the closing of three of these loans for projects located in Santa Rosa – two for affordable housing projects, (Aviara and Acme), and one to a market rate housing project with rents attainable to workforce income levels located in the Railroad Square neighborhood of Santa Rosa (Pullman Lofts). In addition, the Fund focused on raising additional lending capital over the course of the Reporting Period, aiming to raise enough funding to provide additional loans to future projects. As a result of these efforts, the Fund celebrated the closing of a loan from Enterprise Community Loan Fund and is grateful to Enterprise for their support.

By the close of the Reporting Period, the Fund had met significant organizational and strategic milestones to strengthen its lending program, and looks forward to expanding its impact further to support additional projects in the years to come.



RED Housing Fund: Board of Directors Membership as of December 31, 2022

Board of Directors:

- 1) Veronica Ferguson – President
- 2) Todd Sheffield – Vice President
- 3) Amanda Ruch – Treasurer; Representative of the County of Sonoma
- 4) Michelle Whitman – Secretary; Representative of the Renewal Enterprise District
- 5) David Gouin – Representative of the City of Santa Rosa
- 6) Betzy Chavez
- 7) Jen Klose

Advisors to the Board of Directors:

- 1) Chris Coursey – Board of Supervisors and Third District Supervisor, County of Sonoma
- 2) Victoria Fleming – Councilperson, City of Santa Rosa



PIPELINE AND PORTFOLIO UPDATE

The RED Housing Fund will support projects that are located within the RED’s jurisdiction and adhere to the RED Project Criteria. These criteria outline four threshold criteria that all projects applying for funding from the Fund must meet. Additionally, projects must meet a minimum of one of the Evaluation Criteria as well, designed to help differentiate projects and outline additional RED priorities.

The four Threshold Criteria are:

- The project must be located on an infill site;
- The project must provide mid- to high-density housing development;
- The project must be located entirely within a Transit Priority Area, Priority Development Area, Rural Community Investment Area, Specific Plan Area, High-Quality Transit Corridor or Qualified Opportunity Zone; and
- The project must be residential or mixed-use residential.

The Evaluation Criteria include the project’s incorporation of:

- On-site affordable units;
- On-site workforce housing;
- On-site “Affordable by Design” units (units that are typically smaller than market-rate units, more efficient, or have fewer amenities);
- Proximity to transit;
- Energy-efficient features;
- Water-efficient features;
- Excellent and innovative design;
- On-site childcare;
- Prevailing wage;
- Public outdoor space;
- Bicycle or pedestrian connectivity and/or pedestrian access;
- Location within a disadvantaged community;
- Off-site construction of affordable housing, workforce housing, or units that are “affordable by design”; and
- Mixed-door housing.

When funding is available, projects that meet the four Threshold Criteria and at least one of the Evaluation Criteria may qualify for two types of financing, depending on whether the project is classified as “affordable” (for projects with units primarily restricted to up to 80% of area median income) or “middle income/market” (for projects with units restricted to 80-120% of area median income, market rate units, or projects with a mix of income levels).



For **affordable projects**, the Fund offers loans that may be used during all phases of the development process, from construction through permanent phase. For **middle income/market projects**, the Fund offers financing that may be used for construction financing that is subordinate to a conventional construction loan. When necessary, this loan may also convert to permanent financing, sized to a project's available cash flow after payment of required, first-position debt.

PORTFOLIO UPDATE

Risk Rating Overview: Quarterly, the Fund evaluates the loans in its portfolio to reassess the loans' risk rating. At closing, a risk rating is assigned to the loan that determines its loan loss reserve amount – this amount may be adjusted depending on various factors, such as whether the project is progressing according to its milestones, improvements in operating performance, interest coverage or debt paydown, and, likewise, any deterioration in the credit, non-compliance with covenants, or any material adverse change.

The risk rating categories and their corresponding loan loss reserve amount are:

- 1 – High Pass (loss provision of 3%): The borrower and loan are performing above projections and project milestones with no sign of deterioration in performance;
- 2 – Pass (loss provision of 5%): The borrower and loan are performing fully to projections and project milestones;
- 3 – Loss Pass (loss provision of at least 7%): There may be some sign of variance or degradation in one or more major performance criteria, but the overall quality of the investment is still acceptable;
- 4 – Watch/Attention (loss provision of 10-15%): Borrower and/or loan performance is below expectations; and
- 5 – Doubtful/Substandard (loss provision of up to 50%): The borrower or loan show significant deterioration and requires restructuring or Fund intervention.

Portfolio Status and Review: As of the close of the fiscal year, the Fund had three loans outstanding in its portfolio – \$2,400,000 and \$800,000 committed to affordable housing projects, Aviara and Acme respectively, and \$1,300,000 committed to Pullman Lofts, a market rate housing project with workforce attainable rents. Collectively, these three projects represent over 325 new units of housing added to Santa Rosa's housing stock, over 200 of which are at affordable rent levels to households earning at or below 60% of area median income. All projects progressed according to milestones as specified in their loan agreements. Additional portfolio updates are further described in Appendix 1.



LENDING AND PORTFOLIO OVERVIEW:

Affordable Loans: Loans for projects in which units are restricted to incomes up to 80% AMI. Fund proceeds may be used to fund all phases of a project's development process, from construction through permanent phase.

Loan	Address	Borrower	Total Units	Affordability Level(s)	Total Committed	Total Outstanding ¹	Loan Agreement Date	Anticipated Maturity	Risk Rating
1	Aviara 1385 West College Ave. Santa Rosa, CA 95401	MM Aviara, LP	136	30-60% AMI	\$2,400,000	\$2,400,000	6/1/22	6/1/40 <i>18-year term</i>	2 – Pass
2	Acme 1885 Sebastopol Road Santa Rosa, CA 95407	Acme Family Apartments, LP	77	30-60% AMI	\$800,000	\$58,400	10/1/22	10/1/40 <i>18-year term</i>	2 – Pass
Total:			213		\$3,200,000	\$2,458,400			

Middle Income/Market Loans: Loans for projects in which units are restricted to incomes up to 80-120% AMI or are market rate (or a mix of income levels). Fund proceeds may be used for construction financing that is subordinate to a conventional construction loan, and if necessary, may convert to permanent financing.

Loan	Address	Borrower	Total Units	Affordability Level(s)	Total Committed	Total Outstanding ¹	Loan Agreement Date	Anticipated Maturity	Risk Rating
1	Pullman Lofts 701 Wilson Street Santa Rosa, CA 95401	Pullman Lofts First Phase LLC	114	Market / Workforce	\$1,300,000	\$446,669	11/1/22	12/1/2024 <i>25-month term</i>	2 – Pass
Total:			114		\$1,300,000	\$446,669			

For additional details related to the Fund's Project Loan portfolio, please see Appendix 1.

¹ Amounts outstanding include \$39,628; \$13,954; and \$110,000 as remaining interest reserves for Aviara, Acme and Pullman Lofts respectively.



FINANCIAL SUMMARY AND COVENANT COMPLIANCE

FINANCIAL SUMMARY

The Fund's Profit and Loss Statement reflects earnings from its project loans (through interest income and origination fees), investment income from reserves held in interim investment accounts, and any grant income received. Grants received are intended to support the Fund's operating expenses before the Fund's lending program begins to generate sufficient revenue. The Fund's expenses during the Reporting Period were primarily related to payments for insurance and fees related to third-party services providers, such as corporate counsel, fund management, audit and accounting.

The Fund's Statement of Activities reflects the receipt of grant revenue primarily from two of the Fund's mission-motivated supporters – Kaiser Permanente, a local healthcare provider, and the Community Foundation of Sonoma County. These grants are intended to support the Fund's operating expenses before the Fund's lending program begins to generate revenue. In addition, the value of the Fund's discounted debt (see below) is represented as contribution income on the Fund's Statement of Activities, in accordance with the required accounting treatment.

The Fund's lending capital is comprised of a \$10 million loan from the City of Santa Rosa and a \$10 million forgivable loan from the County of Sonoma. During the fiscal year, the Fund closed a \$1 million loan from Enterprise Community Loan Fund. Note that in accordance with the required accounting treatment, the capital from the County of Sonoma is represented as a loan payable on the Fund's balance sheet, as the Fund is required to adhere to specific financial covenants as a condition for forgiveness. This loan will be forgiven in equal, annual installments over the loan's twenty-year term if the Fund abides by the covenants set forth in its loan agreement – during this fiscal year, the first annual installment of the County's loan of \$500,000 was forgiven, resulting in a new balance of \$9.5 million. In addition, due to the features of both the City and County loans, the required accounting treatment dictates that they be treated as "below market interest rate loans" and therefore be discounted from face value based on the Fund's imputed interest rate, as shown on the Fund's balance sheet. This results in the Fund incurring an interest expense as the debt discount amortizes over time². For additional information, please see the Notes to Financial Statements in the Fund's audited financials.

² This accounting treatment refers only to the City and County loans and does not apply to the loans the Fund provides to its borrowers.



FY 2022 Financial Highlights:

Financial Statements Summary (YTD)	Revenue	\$1,101,567	Assets	\$21,355,900
	Expenses	\$1,011,628	Liabilities	\$14,714,489
	Net Income	\$89,939	Net Assets	\$6,641,411

Gross Capital Commitments from Investors	
Total Capital Committed	\$21,000,000
Undrawn	\$0
Total Capital Drawn	\$21,000,000

Audited financial statements are included as Appendix 2 of this Report.



COVENANT COMPLIANCE

The Fund is required to adhere to certain covenants as detailed in its respective loan agreements. These covenants, as well as the Fund's compliance with each, are further detailed below based on the specific lender agreement.

County of Sonoma – Loan Agreement Covenants:

- **Geographic Location:** Projects financed or otherwise assisted with Loan Proceeds must be consistent with RED Project Criteria.
- **Affordability Criteria:** On an aggregate basis over the term of the Loan, at least 25% of residential units in projects financed or otherwise assisted with Loan Proceeds must be affordable to households of low- or moderate-income.
- **Limitation on Short-Term Rental:** In the documentation for loans, credit enhancements, loan guarantees, and other financial assistance the Fund provides to projects supported with Loan Proceeds, the Fund shall include a requirement that for a period of 5 years following initial occupancy, the project may not provide short-term rentals. For the purpose of this requirement, "short-term rental" means a stay of 30 days or less that is not subject to transient occupancy tax, or a substantially similar definition as set forth in the County's regulations.
- **Limitation on Soft Cost Financing:** On an aggregate basis over the term of the Loan, no more than 15% of Loan Proceeds may be used to pay for soft costs for any project that does not include Affordable Units.

Covenant details shown on following page.



Loan	Address	Geographic Location	Affordability Criteria		Limitation on Short-Term Rental	Limitation on Soft Cost Financing		
		Does address fall within RED Project Criteria boundaries?	Total Units as of the close of the Reporting Period:	327	Does the Loan Agreement include a short-term rental requirement limiting the provision of short-term rentals within the Project for a period of 5 years following initial occupancy?	Loan Proceeds:	\$10,000,000	
1	Aviara 1385 West College Ave. Santa Rosa, CA 95401	Yes	Number of Affordable Units:	135 ³	Yes	Eligible Soft Costs Financed by Loan Proceeds:	N/A Project is Affordable	
2	Acme 1885 Sebastopol Road Santa Rosa, CA 95407	Yes	Number of Affordable Units:	76 ²	Yes	Eligible Soft Costs Financed by Loan Proceeds:	N/A Project is Affordable	
3	Pullman Lofts 701 Wilson Street Santa Rosa, CA 95401	Yes	Number of Affordable Units:	0	Yes	Eligible Soft Costs Financed by Loan Proceeds:	\$194,549	
			Total Affordable Units:	211			Total Soft Costs Financed by Loan Proceeds:	\$194,549
			Percentage of Affordable Units:	65%			Percentage Supporting Soft Costs:	2.0%

³ Note: Does not include the manager's unit.



City of Santa Rosa – Loan Agreement Covenants:

- **Geographic Location:** Projects financed or otherwise assisted with Loan Proceeds must be consistent with RED Project Criteria. Loan Proceeds are initially only eligible to fund projects located within the City’s geographic borders. Once a project has repaid its loan and capital is returned to the Fund, the Fund will be able to recycle the proceeds and support projects throughout Sonoma County, provided that the Fund must continue to provide financing to projects in Santa Rosa in proportion to the share of the Fund’s total available investable capital that is attributable to the City of Santa Rosa’s loan to the Fund.
- **Limitation on Soft Cost Financing:** For projects containing no Affordable Units (units affordable to households of low- or moderate-income as defined in the California Health & Safety Code or applicable law or federal regulation), no more than 15% of the Loan Proceeds used to fund that project may be used to fund soft costs for that project. For projects restricting at least 10% of the project as Affordable Units, no more than 25% of Loan Proceeds used to fund that project may be used to fund soft costs for that project.
- **Limitation on Short-term Rentals:** Any project funded by the Lender’s Loan Proceeds must include clear and express language in the project loan documents prohibiting short term rentals for the term of the project loan. Short Term Rentals shall mean a rental stay of 30 days or less.

Covenant details shown on following page.



Loan	Address	Geographic Location		50%	Limitation on Short-Term Rental	Limitation on Soft Cost Financing		
		Does address fall within RED Project Criteria boundaries?	Share of Loan Proceeds/Total Investable Capital		Does Loan Agreement include clear and express language in the project loan documents prohibiting short term rentals for the term of the project loan?	Loan Proceeds: \$10,000,000	Number of Affordable Units:	Eligible Soft Costs Financed by Loan Proceeds:
1	Aviara 1385 West College Ave. Santa Rosa, CA 954016	Yes	Share of Loan Proceeds Used to Fund Projects in Santa Rosa:	100%	Yes	Number of Affordable Units: 135⁴ 99% of Project Units	Eligible Soft Costs Financed by Loan Proceeds:	25% (\$600,000 of a \$2,400,000 loan)
2	Acme 1885 Sebastopol Road Santa Rosa, CA 95407	Yes	Share of Loan Proceeds Used to Fund Projects in Santa Rosa:	100%	Yes	Number of Affordable Units: 76³ 99% of Project Units	Eligible Soft Costs Financed by Loan Proceeds:	6% (\$44,400 of a \$800,000 loan)
3	Pullman Lofts 701 Wilson Street Santa Rosa, CA 95401	Yes	Share of Loan Proceeds Used to Fund Projects in Santa Rosa:	100%	Yes	Number of Affordable Units: 0	Eligible Soft Costs Financed by Loan Proceeds:	15% (\$194,549 of a \$1,300,000 loan)

⁴ Note: Does not include the manager's unit.



APPENDIX 1: SUMMARY OF PORTFOLIO

LOAN 1: Aviara



Project Description:	Aviara is an affordable housing project located in Santa Rosa. The Project will consist of a mix of two and three-bedroom units and will also incorporate approximately 1,900 square feet of interior community space for a computer lab, laundry facilities, and space for other residential programming (including after school support for children, and adult education and skill building classes).
Project Type:	Affordable
Location	1385 West College Avenue, Santa Rosa, CA 95401
Sponsor / Borrower	Borrower: MM Aviara, LP Borrower is a partnership entity between an affiliate of Pacific Southwest Development Corporation, the project's nonprofit partner, an affiliate of McKellar McGowan Holdings, LLC, the project's developer, and the Project's tax credit investor.
Total RHF Loan Amount	\$2,400,000
Outstanding Balance / Status	\$2,400,000 (includes \$39,628 as interest reserve) / current
Closing Date	June 1, 2022
Maturity Date	June 1, 2040 (RHF's loan has an 18-year term)
Units	136 total units, incorporating 84 two-bedroom units, 52 three-bedroom units, and 1 manager's unit
Households Serving	Project will provide affordable housing for families in Santa Rosa. The Project will include 14 units affordable to households at 30% AMI, 14 units affordable to households at 50% AMI, and 107 units affordable to households at 60% AMI.
Other Financing	Primarily includes construction and permanent financing provided by the developer's local bank and tax credit equity
Risk Rating	2 – PASS (loss provision of 5%)
Interest Rate	1.0%
Project Update	<ul style="list-style-type: none"> • Project Sponsor has contracted for nearly all third-party site and construction work; • Onsite improvements (sewer, water, and storm) are complete, and framing is in process for all buildings; and • No immediate or direct damage occurred to the buildings as a result of the November and December rainstorms; biggest impact was delays to the construction schedule, which the Sponsor hopes to make up for in the following quarters.



LOAN 2: Acme



Project Description:	Acme Family Apartments is an affordable housing projected located in Santa Rosa. The Project will consist of 77 one to three-bedroom units, maximizing options for families and larger unit sizes. The Project will also incorporate amenities such as a community space used for after-school programming and adult education classes, outdoor community spaces and a sports court.
Project Type:	Affordable
Location	1885 Sebastopol Road, Santa Rosa, CA 95407
Sponsor / Borrower	Borrower: Acme Family Apartments, LP Borrower is a partnership entity between an affiliate of Pacific Housing, Inc, the project’s nonprofit partner, an affiliate of Milestone Housing Group, LLC, the Project’s developer, and the Project’s tax credit investor.
Total RHF Loan Amount	\$800,000
Outstanding Balance / Status	\$58,400 (Includes \$13,954 as an interest reserve) / current
Closing Date	October 1, 2022
Maturity Date	October 1, 2040 (RHF’s loan has an 18-year term)
Units	77 total units, incorporating 24 one-bedroom units, 25 two-bedroom units, 27 three-bedroom units, and 1 manager’s unit
Households Serving	Project will provide affordable housing for families in Santa Rosa. 12% of units will be rented to households at 30% AMI, 17% will be rented to households at 40% AMI, 41% will be rented to households at 50%, and 30% of units will be rented to households at 60% AMI.
Other Financing	Primarily includes construction and permanent financing provided by two banks and tax credit equity
Risk Rating	2 – PASS (loss provision of 5%)
Interest Rate	1.0%
Project Update	<ul style="list-style-type: none"> Project Sponsor is preparing for site work and construction to commence in the following quarters.



LOAN 3: Pullman Lofts



Project Description:	Pullman Lofts consists of three buildings being built in two phases located at 701 Wilson Street in the historic Railroad Square neighborhood of Santa Rosa. The first two buildings consist of 70 units for which construction has been completed, and the third building will consist of 44 units. The project will also incorporate amenities such as a dog park, pool area with fire pits and grills, a gym, and is located along the SMART rail line.
Project Type:	Market
Location	701 Wilson Street, Santa Rosa, CA 95401
Sponsor / Borrower	Borrower: Pullman Lofts First Phase LLC The Borrower is owned by various investor members. Phoenix Development Company of Minneapolis, LLC is the Project's developer.
Total RHF Loan Amount	\$1,300,000
Outstanding Balance / Status	\$446,669 (includes \$110,000 as an interest reserve) / current
Closing Date	November 1, 2022
Maturity Date	December 1, 2024 (RHF's loan has a 25-month term)
Units	114 total units, incorporating 77 one-bedroom units and 37 two-bedroom units
Households Serving	Market rate income levels, although a majority of the project's one-bedroom units will be "affordable by design," meaning they are smaller units at lower rent levels, ranging between 470-620 square feet. Two of these units will be deed restricted to households at or below 80% AMI.
Other Financing	Primarily includes construction and permanent financing from a bank and equity investments from a variety of investors, including the developer.
Risk Rating	2 – PASS (loss provision of 5%)
Interest Rate	8.75%
Project Update	<ul style="list-style-type: none"> Project Sponsor has submitted applications for grading building permits and is preparing for site work and construction to commence in the following quarters (permits were received subsequent to the Reporting Period).



APPENDIX 2: FUND FINANCIAL DETAILS

Fund financial details shown on following page.



Red Housing Fund

Financial Statements

Year Ended December 31, 2022



PISENTI & BRINKER LLP
Certified Public Accountants & Advisors

Table of Contents

	Page
Independent Auditor's Report	1
Financial Statements	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7



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

December 31, 2022

Assets

Current assets

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

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

Total assets \$ 21,355,900

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

Net assets

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

Total net assets 6,641,411

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

See accompanying notes.

**RED Housing Fund
Statement of Activities**

Year Ended December 31, 2022

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

See accompanying notes.

RED Housing Fund
Statement of Functional Expenses

Year Ended December 31, 2022

	Program	Management and General	Total
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
Total expenses	\$ 951,485	\$ 60,143	\$ 1,011,628

See accompanying notes.

RED Housing Fund
Statement of Cash Flows

Year Ended December 31, 2022

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
Net cash provided by operating activities	258,961

Cash flows from investing activities

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

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

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

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

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

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

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:

<p>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.</p>	\$ 2,400,000
<p>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.</p>	446,669
<p>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.</p>	58,400
	2,905,069
Less loan loss reserve	(225,000)
<u>Less origination fees, net</u>	<u>(205,133)</u>
	\$ 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

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
<hr/>	
Total net assets with donor restrictions	5,822,380
Without donor restrictions:	
Undesignated	819,031
<hr/>	
Total net assets without donor restrictions	819,031
<hr/>	
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.