

**VALLEY HOUSING  
DEVELOPMENT CORPORATION**

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**WITH  
REPORT OF INDEPENDENT AUDITORS**

**VALLEY HOUSING DEVELOPMENT CORPORATION**  
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**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

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**REPORT OF INDEPENDENT AUDITORS**

The Board of Directors of  
Valley Housing Development Corporation:

**Report on the Financial Statements**

We have audited the accompanying financial statements of Valley Housing Development Corporation as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, as listed in the accompanying table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of 100 South Third Street Associates - PHFA No. O-0143, Turner Street Associates - PHFA No. H-0013, Gordon Street Associates - PHFA No. O-0080 and 627 Hamilton Associates - PHFA No. O-0100 (2018 only) which statements reflect cumulative total assets as of December 31, 2019 and 2018 of \$2 million and \$2.9 million, respectively, and cumulative total revenues for the years ended December 31, 2019 and 2018 of \$1.2 million and \$0.7 million, respectively. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for 100 South Third Street Associates - PHFA No. O-0143, Turner Street Associates - PHFA No. H-0013, Gordon Street Associates - PHFA No. O-0080 and 627 Hamilton Associates - PHFA No. O-0100 (2018 only), is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Valley Housing Development Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Valley Housing Development Corporation'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 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, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Valley Housing Development Corporation as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Changes in Accounting Principles**

As discussed in Note 1 to the financial statements, Valley Housing Development Corporation adopted changes in accounting principles related to revenue recognition, presentation and disclosure of the statements of cash flows and real estate sales. Our opinion is not modified with respect to those matters.

## **Other Matters**

### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying combining statements of financial position and combining statements of activities are not a required part of the financial statements and are presented for the purposes of additional analysis. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2020, on our consideration of Valley Housing Development Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Valley Housing Development Corporation's internal control over financial reporting and compliance.

*Novogradac & Company LLP*

November 3, 2020  
Toms River, New Jersey

## **FINANCIAL STATEMENTS**

**VALLEY HOUSING DEVELOPMENT CORPORATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2019 AND 2018**

**ASSETS**

	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents	\$ 2,648,760	\$ 2,036,578
Tenant security deposits	410,801	472,149
Accounts receivable, net	185,865	418,355
Prepaid expenses	<u>49,041</u>	<u>87,478</u>
Total current assets	<u>3,294,467</u>	<u>3,014,560</u>
Non-current assets:		
Restricted cash	361,796	525,027
Accounts receivable non-current, net	36,023	17,617
Notes receivable, net	3,471,041	1,957,374
Accrued interest receivable, net	1,313,478	830,667
Developer fees receivable, net	118,419	118,419
Property and equipment, net	<u>2,726,202</u>	<u>5,499,703</u>
Total non-current assets	<u>8,026,959</u>	<u>8,948,807</u>
Total assets	<u>\$ 11,321,426</u>	<u>\$ 11,963,367</u>

**LIABILITIES AND NET ASSETS**

Current liabilities:		
Accounts payable	\$ 15,893	\$ 115,125
Accrued expenses	137,156	131,919
Prepaid rents	8,701	8,349
Security deposits payable	403,978	465,333
Current portion of notes payable	<u>799,048</u>	<u>868,740</u>
Total current liabilities	<u>1,364,776</u>	<u>1,589,466</u>
Non-current liabilities:		
Notes payable, net, excluding current portion	<u>241,999</u>	<u>1,853,255</u>
Total liabilities	<u>1,606,775</u>	<u>3,442,721</u>
Net assets:		
Without donor restrictions	<u>9,714,651</u>	<u>8,520,646</u>
Total liabilities and net assets	<u>\$ 11,321,426</u>	<u>\$ 11,963,367</u>

See accompanying notes to financial statements.

**VALLEY HOUSING DEVELOPMENT CORPORATION**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:

	<u>2019</u>	<u>2018</u>
Support and revenue:		
Rental income, net of vacancies	\$ 812,021	\$ 1,195,573
Government contracts and grants	737,089	515,470
Interest income	462,558	540,284
Other revenue	<u>583,208</u>	<u>138,029</u>
Total support and revenue	<u>2,594,876</u>	<u>2,389,356</u>
Expenses:		
Program	1,959,840	1,779,800
Management and general	<u>80,640</u>	<u>134,549</u>
Total expenses	<u>2,040,480</u>	<u>1,914,349</u>
Change in net assets without donor imposed restrictions	554,396	475,007
Transfer of net assets from entities under common control	<u>639,609</u>	<u>125,702</u>
Net assets, beginning of year	<u>8,520,646</u>	<u>7,919,937</u>
Net assets, end of year	<u>\$ 9,714,651</u>	<u>\$ 8,520,646</u>

See accompanying notes to financial statements.

**VALLEY HOUSING DEVELOPMENT CORPORATION**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

<u>December 31, 2019</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and benefits	\$ 132,302	\$ 27,098	\$ 159,400
Utilities	157,852	-	157,852
Office expense	78,787	16,137	94,924
Professional fees	71,560	17,890	89,450
Insurance	78,059	19,515	97,574
Maintenance	515,908	-	515,908
Interest and financing costs	45,413	-	45,413
Depreciation	171,488	-	171,488
Rental property expense	309,500	-	309,500
Real estate taxes	162,446	-	162,446
Bad debt expense	<u>236,525</u>	<u>-</u>	<u>236,525</u>
Total expenses	\$ <u>1,959,840</u>	\$ <u>80,640</u>	\$ <u>2,040,480</u>

<u>December 31, 2018</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and benefits	\$ 199,899	\$ 40,943	\$ 240,842
Utilities	161,182	-	161,182
Office expense	80,980	16,586	97,566
Professional fees	50,335	12,584	62,919
Insurance	89,867	22,467	112,334
Maintenance	398,499	-	398,499
Interest and financing costs	56,889	-	56,889
Depreciation	208,859	-	208,859
Rental property expense	349,469	-	349,469
Real estate taxes	153,789	-	153,789
Partnership transfer fees	-	41,969	41,969
Bad debt expense	<u>30,032</u>	<u>-</u>	<u>30,032</u>
Total expenses	\$ <u>1,779,800</u>	\$ <u>134,549</u>	\$ <u>1,914,349</u>

See accompanying notes to financial statements.



**VALLEY HOUSING DEVELOPMENT CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities:		
Cash received from support and revenue	\$ 1,884,498	\$ 1,884,443
Interest received	14,228	57,954
Cash paid to suppliers and employees	(1,835,902)	(1,915,394)
Interest paid	<u>(45,413)</u>	<u>(56,889)</u>
Net cash provided by (used in) operating activities	<u>17,411</u>	<u>(29,886)</u>
Cash Flows from Investing Activities:		
Advances on notes receivable	(265,601)	(18,892)
Repayments of notes receivable	<u>59,533</u>	<u>159,182</u>
Net cash (used in) provided by investing activities	<u>(206,068)</u>	<u>140,290</u>
Cash Flows from Capital and Related Financing Activities:		
Property and equipment purchases	(8,650)	(42,341)
Proceeds from the sale of capital assets	728,173	-
Contribution of capital	-	326,105
Issuance of notes payable	-	-
Principal payments on mortgage	<u>(143,263)</u>	<u>(135,782)</u>
Net cash provided by capital and related financing activities	<u>576,260</u>	<u>147,982</u>
Net increase in cash and cash equivalents	387,603	258,386
Cash, cash equivalents and restricted cash, beginning of year	<u>3,033,754</u>	<u>2,775,368</u>
Cash, cash equivalents and restricted cash, end of year	\$ <u>3,421,357</u>	\$ <u>3,033,754</u>
Reconciliation of cash, cash equivalents and restricted cash to the Statement of Financial Position		
Cash and cash equivalents	\$ 2,648,760	\$ 2,036,578
Restricted cash	361,796	525,027
Tenant security deposits	<u>410,801</u>	<u>472,149</u>
Total cash, cash equivalents and restricted cash	\$ <u>3,421,357</u>	\$ <u>3,033,754</u>

See accompanying notes to financial statements.

**VALLEY HOUSING DEVELOPMENT CORPORATION**  
**STATEMENTS OF CASH FLOWS (continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	\$ 554,396	\$ 475,007
Items which did not use cash:		
Depreciation expense	171,488	208,859
Bad debt expense	2,822	30,032
Gain on sale of capital assets	(444,144)	-
Interest income	(448,330)	(482,330)
Changes in operating assets and liabilities:		
Accounts receivable	221,819	(203,516)
Prepaid expenses	44,195	(36,416)
Accounts payable	(96,742)	(62,960)
Accrued expenses	35,120	6,067
Security deposits payable	(26,397)	28,452
Prepaid tenant rents	<u>3,184</u>	<u>6,919</u>
Net cash provided by (used in) operating activities	\$ <u><u>17,411</u></u>	\$ <u><u>(29,886)</u></u>

See accompanying notes to financial statements.

**VALLEY HOUSING DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Organization**

Valley Housing Development Corporation ("VHDC" or "the Corporation") is a non-profit corporation exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code. VHDC was formed to receive and administer funds to provide loans for housing for low and moderate income households that would otherwise be unable to find housing in the private market; provide transitional housing for low and moderate income households coming out of shelters for the homeless; and provide low cost rental housing for low and moderate income households.

100 South Third Street Associates - PHFA No. O-0143, Turner Street Associates - PHFA No. H-0013, Gordon Street Associates - PHFA No. O-0080 and 627 Hamilton Associates - PHFA No. O-0100 (the "entities") are all single member limited liability companies of which VHDC is the sole member. As a single member limited liability company, the entities are considered part of VHDC for financial reporting purposes and not wholly owned subsidiaries.

VHDC also holds general partner interests in numerous low income housing tax credit partnerships. VHDC is not responsible for, nor guarantees the debt of the partnerships and has no right to their operating results. VHDC manages the partnerships under management agreements with the limited partners which requires limited partner approval to sell assets, borrow funds and set budgets.

**B. Basis of Accounting**

The Corporation prepares its financial statements on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

**C. Basis of Presentation**

Basis of Presentation

The Corporation is required to report information regarding its financial position and activities according to the following net asset classifications:

*Net assets without donor restrictions:* Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Corporation. These net assets may be used at the discretion of the Corporation's management and the board of directors.

*Net assets with donor restrictions:* Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature, which will be met by actions of the Corporation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Contributions that are restricted by the donor are reported as an increase to net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized.

**VALLEY HOUSING DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**C. Basis of Presentation (continued)**

For the years ended December 31, 2019 and 2018, the Corporation had net assets in only the *net assets without donor restrictions* classification. These net assets are not subject to donor imposed restrictions.

**D. Changes in Accounting Principle**

On January 1, 2019, the Corporation adopted new accounting standards that effects the accounting for revenue. The Corporation derives revenue from leases which is not impacted by this standard. The Corporation also derives revenue from other exchange transactions and contributions. Adopting these standards did not have a significant impact on the financial statements.

The new revenue standard also introduced new guidance for accounting for other income, including the accounting for sales of real estate. Adopting this standard did not have a significant impact on the financial statements.

On January 1, 2019, the Corporation adopted new accounting standards that affect the statement of cash flows. These new standards address how certain cash receipts and payments are presented and classified in the statement of cash flows, including that debt prepayments and other debt extinguishment related payments are required to be classified as financing activities, when previously these payments were classified as an operating activity. The new standards also require the statement of cash flows to explain the change in cash, cash equivalents and restricted cash. Previously, changes in restricted cash were presented in the statement of cash flows as operating, investing or financing activities depending upon the intended purpose of the restricted funds.

The effect of the revisions to the statements of cash flows for the year ended December 31, 2018 is as follows:

	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>As Revised</u>
Net cash provided by (used in) operating activities	\$ <u>177,713</u>	\$ <u>(207,599)</u>	\$ <u>(29,886)</u>
Net cash (used in) provided by investing activities	\$ <u>(30,981)</u>	\$ <u>171,271</u>	\$ <u>140,290</u>
Net cash provided by capital and related financing activities	\$ <u>4,508</u>	\$ <u>143,474</u>	\$ <u>147,982</u>

**E. Cash and Cash Equivalents**

Cash and cash equivalents include all cash balances on deposit with financial institutions and highly liquid investments with a maturity of three months or fewer at the date of acquisition.

Tenant security deposits are not considered cash and cash equivalents.

Restricted cash is not considered cash and cash equivalents, and includes cash held with financial institutions for funding of operating deficits, repairs or improvements to the buildings that extend their useful lives, annual payments of tax and insurance and debt service payments.

**VALLEY HOUSING DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**F. Accounts Receivable**

Rents are due from tenants on the first day of each month. As a result, tenants' accounts receivable balances primarily consist of rents past due and vacated tenants. Also included in accounts receivable are operating deficit payments, which consist of amounts advanced from VHDC to limited partnerships to cover operating expenses. An allowance for doubtful accounts is established to provide for all accounts, which may not be collected in the future for any reason. Collection losses on accounts receivable are charged against the allowance for doubtful accounts.

**G. Investments In and Receivables From Real Estate Limited Partnerships**

The Corporation uses the equity method of accounting for its investments in limited partnerships in which the Corporation serves as general partner, as the Corporation has significant influence over, but not control of the major operating and financial policies of the limited partnerships. Under this method, the Corporation's share of income, losses, and distributions incurred by the limited partnerships is recognized as an increase or reduction of the carrying value of the investments. The Corporation's percentage ownership in these partnerships approximates .01% and the Corporation's investment as of December 31, 2019 and 2018 totaled \$0.

Receivables from partnerships include amounts from operating deficit payments, accrued interest on mortgages, developer fees, notes, and mortgages.

Additionally, on December 3, 2019, the Corporation entered into an assignment and assumption agreement with Wells Fargo Affordable Housing Community Development Corporation in the amount of \$55,104 to acquire Washington Avenue Associates LP.

**H. Prepaid Expenses**

Prepaid expenses represent amounts paid as of year-end that will benefit future operations.

**I. Contributions**

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction.

When a 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 statements of activities as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

**VALLEY HOUSING DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**I. Contributions (continued)**

Unconditional pledges to give are recorded as contributions when pledged at the net present value of the amounts expected to be collected. Unconditional pledges to give that are expected to be received in future periods are discounted annually using the current interest rate the funds would earn. Amortization of the discount is recorded as contribution revenue.

**J. Revenue Recognition**

Rental income is recognized as the rents are earned in accordance with the lease terms. Revenue resulting from special events, fees charged by the Corporation, refunded grants and other income is also recorded when earned.

**K. Property and Equipment**

Land, building and improvements, and furniture and equipment are recorded at cost. Betterments and major renewals that extend useful lives of property and equipment are capitalized. Routine repairs and maintenance are expensed as incurred. Contributed assets are recorded at their fair market value at the date of gift. In the absence of original cost records, appraisals of historical cost or fair market value at the date of gift have been recorded. Depreciation is computed by using the straight-line and accelerated methods over the estimated useful lives of the related assets. Upon the sale or retirement of fixed assets, the cost and related accumulated depreciation is eliminated from the accounts and any related gain or loss is reflected in the Statements of Activities. A summary of the estimated useful lives is as follows:

	<u>Years</u>
Buildings and site improvements	25-30
Furniture, equipment, and machinery	5-7

VHDC has set a capitalization threshold of \$1,000.

**L. Income Taxes**

The Corporation is a not-for-profit corporation which is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC"). The Corporation is not taxed on income derived from its exempt functions. However, the Corporation is subject to tax on unrelated business income, which is generated from the Corporation's investment income and other activities not related to their stated exempt purposes.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Corporation to report information regarding its exposure to various tax positions taken by the Corporation. The Corporation has determined whether any tax positions have met the recognition threshold and has measured the Corporation's exposure to those tax positions. Management believes that the Corporation has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to the Corporation are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

**VALLEY HOUSING DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**M. Functional Expenses**

The costs of providing program services and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among program services and administrative and support. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and benefits	Time and effort
Insurance	Square footage
Office	Time and effort
Other administrative	Time and effort
Depreciation	Square footage

**N. Estimates**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**O. Impairment of Long-Lived Assets**

The Corporation reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to the future net undiscounted cash flows expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived assets are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset exceeds the fair value as determined from an appraisal, discounted cash flow analysis, or other valuation technique. For the years ended December 31, 2019 and 2018, there were no impairment losses.

**P. Notes and Developer Fees Receivable**

The Corporation has utilized funds to assist in the redevelopment and operation of numerous developments through the issuance of notes and through the deferral of developer fees. When preparing financial statements in accordance with generally accepted accounting principles, management is required to make estimates as to the collectability of such notes and developer fees. When estimating collectability, management analyzes the value of the underlying mortgaged property; the property's ability to generate positive cash flow and current economic trends and conditions. Management utilizes these estimates and judgments in connection with establishing an allowance for uncollectable amounts during an accounting period.

**Q. Economic Concentrations**

The Corporation receives a significant amount of revenue from the projects in which it is the general partner. These sources of funds are dependent upon the continued successful development and management of these projects.

**VALLEY HOUSING DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Q. Economic Concentrations (continued)**

The Corporation, either as a direct owner, advisor or general partner, has an economic interest in real estate projects that are subject to business risks associated with the economy and level of unemployment in Pennsylvania, which affects occupancy, as well as the tenants' ability to make rental payments. In addition, these projects operate in a heavily regulated environment. The operations of these projects are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, the Department of Housing and Urban Development ("HUD"). Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD and may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

**R. Concentration of Credit Risk**

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

**S. Reclassifications**

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

**NOTE 2. ACCOUNTS RECEIVABLE, NET**

At December 31, 2019 and 2018, accounts receivable consisted of the following:

<u>Category</u>	<u>2019</u>	<u>2018</u>
Operating deficit payments	\$ 1,012,264	\$ 1,117,578
Grants	8,309	24,620
Tenant receivables	5,959	7,916
Allowance for doubtful accounts	<u>(804,644)</u>	<u>(714,142)</u>
Total accounts receivable, net	221,888	435,972
Less: accounts receivable, current	<u>185,865</u>	<u>418,355</u>
Accounts receivable, noncurrent	\$ <u><u>36,023</u></u>	\$ <u><u>17,617</u></u>

**A. Operating Deficit Payments**

Operating deficit payments consist of amounts advanced from VHDC to limited partnerships to cover operating expenses. A substantial amount of these receivables have been classified as long term due to significant cash flow problems of the partnerships. The allowance for doubtful accounts of \$804,644 and \$714,142, respectively, has been established to provide for potential future uncollectable operating deficit payments due from these limited partnerships. Actual losses, if any, will not be determined until each limited partnership has reached the end of its low-income housing tax credit compliance period.



**VALLEY HOUSING DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 2. ACCOUNTS RECEIVABLE, NET (continued)**

**B. Grants**

Lehigh and Northampton County Grants consist of amounts owed for monthly rental assistance in the MHMR and Supportive programs. VHDC expects all these receivables to be collected and accordingly, no allowance for doubtful accounts has been made.

**C. Tenant Receivables**

Tenant receivables consist of amounts owed for monthly tenant rental charges from the various properties. VHDC expects all these receivables to be collected and accordingly, no allowance for doubtful accounts has been made.

**NOTE 3. RESTRICTED CASH**

Restricted cash of \$361,796 and \$525,027, respectively, at December 31, 2019 and 2018, represents amounts held in escrow for various properties that is generally not available for operating purposes.

**NOTE 4. DEVELOPER FEES RECEIVABLE, NET**

At December 31, 2019 and 2018, developer fees receivable consisted of developer fees earned and due from the following partnerships:

<u>Partnership</u>	<u>2019</u>	<u>2018</u>
Knox Avenue Senior Associates	\$ 160,656	\$ 160,656
Schoenersville Apartments Associates	113,903	113,903
Wilson Manor Apartments Associates	27,222	27,222
AP54 Associates	215,333	215,333
Allowance for doubtful accounts	<u>(398,695)</u>	<u>(398,695)</u>
Total developer fees receivable, net	\$ <u>118,419</u>	\$ <u>118,419</u>

Developer fees are earned for consulting services performed on various developmental projects, most of which are from related partnerships. Amounts are expected to be received over a ten to fifteen year period from the date of initial operations. Some amounts are due as balloon payments at the end of the term or are paid from the respective partnerships' available net cash flows.

As of December 31, 2019 and 2018, an allowance for doubtful accounts of \$398,695 for both years has been established to provide for potential future uncollectable development fees due from these limited partnerships. Actual losses, if any, will not be determined until each limited partnership has reached the end of its low-income housing tax credit compliance period.

**VALLEY HOUSING DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 5. ACCRUED INTEREST RECEIVABLE, NET**

Accrued interest on notes receivable as of December 31, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Accrued interest	\$ 10,144,655	\$ 8,827,662
Allowance for doubtful accounts	<u>(8,831,177)</u>	<u>(7,996,995)</u>
Accrued interest, net	<u>\$ 1,313,478</u>	<u>\$ 830,667</u>

**NOTE 6. NOTES RECEIVABLE, NET**

Notes receivable at December 31, 2019 and 2018 consisted of the following loans with limited partnerships in which VHDC is the general partner or shares common board members:

	<u>2019</u>	<u>2018</u>
7.5% mortgage receivable from Mill II Associates, collateralized by a third mortgage, all principal and accrued interest are deferred until day of sale or May 2023, its 30th year of operation.	\$ 189,025	\$ 189,025
Two (2) \$100,000 mortgages and (1) \$230,000 mortgage receivable from AP54 Associates, LP as part of the sale and rehabilitation of various properties. The notes are non-interest bearing which are collateralized by real property and due in September, 2042.	430,000	430,000
7.17% mortgage receivable from Canal Park Associates, collateralized by a second mortgage, payment of principal and accrued interest are due in a lump sum in 2020.	165,197	165,197
6.02% mortgage receivable from Wind Gap Associates, collateralized by a second mortgage, payment of principal and interest are due from excess cash flows, any remaining principal and interest are due in 2026.	253,653	253,653
Non-interest bearing operating deficit loan receivable from 901 Mill Associates, payable from excess cash flow and unsecured.	7,132	7,132
6.02% mortgage receivable from Bath Elderly Apartment Associates, collateralized by a third mortgage, payment of principal and interest only if the project generates residual revenue each year, any remaining unpaid principal and interest due in a lump sum in 2026 provided that there is no default of any terms in accordance with the provisions of the mortgage note.	363,330	363,330
Operating deficit loan receivable from Mill II Associates, LP payable from excess cash flow, interest free and unsecured.	364,508	320,190

**VALLEY HOUSING DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 6. NOTES RECEIVABLE, NET (continued)**

	<u>2019</u>	<u>2018</u>
5.09% mortgage receivable from Schoenersville Apartments Associates, LP, collateralized by a third mortgage, payment of principal and interest deferred until the sale of the project or refinancing of the note.	569,897	569,897
5% mortgage receivable from Valley Housing Finance Corporation, collateralized by a second mortgage on property held by Grandview Apartments Associates, payment of principal and interest due only if the project generates residual revenue, any remaining unpaid principal and interest due in a lump sum in 2027 provided there is no default in accordance with the provisions of the mortgage note.	500,000	500,000
5.09% mortgage receivable due from Valley Housing Finance Corporation collateralized by a third mortgage on the Nazareth Senior Apartments. Payment of principal and interest are deferred during the term of the note unless there is residual revenue generated by the project.	500,000	500,000
5% mortgage receivable from Valley Housing Finance Corporation, collateralized by a second mortgage on property held by Grandview Apartments Associates, payment of principal and interest due only if the project generates residual revenue, any remaining unpaid principal and interest due in a lump sum in 2027 provided there is no default in accordance with the provisions of the mortgage note.	500,000	500,000
5.75% mortgage receivable from Knox Avenue Senior Associates collateralized by a second mortgage, payment of principal and interest deferred during the term of the note unless there is residual revenue generated by the project.	497,705	497,705
5.00% mortgage receivable from Grandview Apartment Associates, collateralized by a fourth mortgage, payment of principal and interest due only if the project generates residual revenue each year, any remaining unpaid principal and interest due in a lump sum in 2029 provided there is no default in accordance with the provisions of the mortgage note.	239,000	239,000
Operating deficit loan receivable from Bath Elderly, payable from excess cash flow, interest free and unsecured.	99,396	99,396

**VALLEY HOUSING DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 6. NOTES RECEIVABLE, NET (continued)**

	<u>2019</u>	<u>2018</u>
5.10% mortgage receivable from Lexie's Dream Apartments Associates, LP, collateralized by a second mortgage payment of principal and interest deferred during the term of the note unless there is residual revenue generated by the project.	166,684	166,684
4.08% mortgage receivable from Cedar Street Apartments Associates, LP, collateralized by a second mortgage on property, payment of principal and interest deferred during the term of the note unless there is residual revenue generated by the project.	500,000	500,000
Operating deficit loan receivable from East Penn Place Associates. The loan is interest free, unsecured and has no specific repayment terms.	315,163	315,163
3.65% mortgage receivable from Wilson Manor Apartments Associates, LP, collateralized by a second mortgage on property, payment of principal and interest deferred during the term of the note unless there is residual revenue generated by the project.	636,847	636,847
4.48% mortgage receivable from Forte Apartments Associates, LP, collateralized by a third mortgage on property, payment of principal and interest deferred during the term of the note unless there is residual revenue generated by the project.	133,366	133,366
Non-interest bearing mortgage receivable from Nazareth Senior Apartments Associates, LP, collateralized by a third mortgage on property, unpaid principal due at the date the project is sold or the note is refinanced.	188,928	188,928
3.65% mortgage receivable from Wilson Manor Apartments Associates, LP, collateralized by a third mortgage, payment of principal and interest deferred unless residual revenue is generated by the project.	125,000	125,000
Operating deficit loan receivable from Northampton Elderly Apartments Associates, due in a lump sum payment on January 7, 2016 or the date the Partnership sells the property, whichever is earlier. The loan is interest free and unsecured.	45,674	45,674
Operating deficit loan receivable from Mill II Associates, The loan is interest free, unsecured and has no specific repayment terms.	240,313	240,313
Operating deficit note receivable from 901 Mill Avenue Associates, payable from excess cash flow, interest free and unsecured.	44,258	44,258

**VALLEY HOUSING DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 6. NOTES RECEIVABLE, NET (continued)**

	<u>2019</u>	<u>2018</u>
Mortgage note receivable for Lehigh County Housing Authority in connection with the sale of the Eaton Avenue project. The loan accrues interest at 2.525% per annum and is due November 30, 2037. During the 25 year amortization period, interest and principal is payable out of available cash from the project.	-	5,173
4.48% mortgage receivable from Forte Apartments Associates, LP, collateralized by a mortgage on property, payment of principal and interest deferred during the term of the note unless there is residual revenue generated by the project.	96,124	96,124
Note receivable from AP54 Associates, LP in connection with their purchase of VHDC properties. The note bears interest at 2.18% and payable out of excess cash flow as defined by the partnership agreement. The note is secured by a second mortgage on the property and due in 2042.	253,303	253,304
4.5% note receivable from the LCHA in connection with LCHA's purchase of the Cedar Village property located in Allentown, PA which is collateralized by real property. No regular payments are due but 50% of any surplus revenues of the Cedar Village project shall be paid annually first to accrued interest and any remainder to principal.	154,491	181,267
2.75% note receivable from the LCHA in connection with LCHA's purchase of the North Catasauqua project which is collateralized by real property. No regular payments are due but 50% of any surplus revenues of the North Catasauqua project shall be paid annually first to accrued interest and any remainder to principal.	239,464	254,411
Operating deficit loan receivable from Cedar Street Apartments Associates, LP payable from excess cash flow, interest free and unsecured.	111,786	94,195
Operating deficit loan receivable from Wind Gap Associates, LP payable from excess cash flow, interest free and unsecured.	131,415	123,415
2.525% note receivable from the LCHA in connection with LCHA's purchase of the Hellertown project which is collateralized by real property. No regular payments are due for twenty-five (25) years but 50% of any surplus revenues of the Hellertown project shall be paid annually first to accrued interest and any remainder to principal. The note matures in February, 2038.	201,032	207,256
Operating deficit loan receivable from Ferry Street Associates, LP payable from excess cash flow, interest free and unsecured.	43,640	33,640

**VALLEY HOUSING DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 6. NOTES RECEIVABLE, NET (continued)**

	<u>2019</u>	<u>2018</u>
Operating deficit loan receivable from Knox Avenue Associates, LP payable from excess cash flow, interest free and unsecured.	75,865	40,344
Operating deficit loan receivable from Schoenersville Associates, LP payable from excess cash flow, interest free and unsecured.	49,069	49,069
Operating deficit loan receivable from Schoenersville Associates, LP payable from excess cash flow, interest free and unsecured.	164,106	106,680
Operating deficit loan receivable from Forte Apartments Associates. The loan is unsecured, non-interest bearing and has no specific repayment terms.	211,754	211,754
Fourth mortgage payable to Schoenersville, with interest at 2.75%, payable in monthly installments of \$660, including interest, maturing in February 2027 with a balloon payment of remaining principal, collateralized by property.	50,991	57,404
Note receivable from Lehigh County Housing Authority in connection with the sale of Sixth Street Elderly, bearing interest at 2.67%, principal and interest is paid based on residual revenue available as determined at the close of each fiscal period, all principal and interest is due in 2029; collateralized by property and improvements.	213,816	256,900
Note receivable from Lehigh County Housing Authority in connection with the sale of Locust Street property in November 2017. This note accrues interest at 2.67%. No regular payments are due but 50% of any surplus revenues of the Locust Street project shall be paid to VHDC annually first to accrued interest and any remainder to principal. The note is secured by real property and matures in 2042.	100,000	100,000
Operating deficit loan receivable from Canal Park, LP payable from excess cash flow, interest free and unsecured.	8,561	-
7.25% mortgage receivable from Ferry Street, LP, collateralized by a mortgage on property, payment of principal and interest deferred during the term of the note unless there is residual revenue generated by the project.	58,691	-

**VALLEY HOUSING DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 6. NOTES RECEIVABLE, NET (continued)**

	<u>2019</u>	<u>2018</u>
Affordable Housing Loan receivable in the original amount of \$675,000 from the Northampton County Housing Authority ("NCHA") in connection with Goepp Street Apartments. This note accrues interest at 4.09%. No regular payments are due, but 50% of any surplus cash of the Goepp Street Apartments shall be received from NCHA annually, first to accrued interest and any remainder to principal. The loan is secured by real property and is due October 31, 2044.	<u>675,000</u>	<u>-</u>
Total notes receivable	9,914,184	9,101,694
Less: allowance for doubtful accounts	<u>(6,443,143)</u>	<u>(7,144,320)</u>
Notes receivable , net	\$ <u><u>3,471,041</u></u>	\$ <u><u>1,957,374</u></u>

As of December 31, 2019 and 2018, an allowance for doubtful accounts of \$6,443,143 and \$7,144,320, respectively, has been established to provide for potential future uncollectable loans and notes receivable due from these limited partnerships. Actual losses, if any, will not be determined until each limited partnership has reached the end of its low-income housing tax credit compliance period.

**NOTE 7. INVESTMENTS IN LIMITED PARTNERSHIPS**

VHDC owns various interests in numerous limited partnerships. The limited partnerships operate apartment complexes which provide low income housing eligible for tax credits in accordance with Section 42 of the Internal Revenue Code.

The Corporation uses the equity method of accounting for its investments in 17 limited partnerships in which the Corporation serves as a co-general partner, as the Corporation has significant influence over, but not control of the major operating and financial policies of the limited partnerships. Under this method, the Corporation's share of income, losses, and distributions incurred by the limited partnerships is recognized as an increase or reduction of the carrying value of the investments.

Accordingly, the investment is carried at cost and adjusted for the proportionate share of earnings or losses. Since the accumulated losses attributed to VHDC has exceeded its investment in the partnerships, the carrying value of the investment as of December 31, 2019 and 2018 is recorded as \$0.

The following partnerships are recorded under the equity method:

AP54 Associates, LP  
Cedar Street Apartments Assoc.  
Mill II Associates  
Bath Elderly Apartments Assoc.  
Schoenersville Apartments Assoc.  
Canal Park Assoc.

Grandview Apartments Assoc.  
Wind Gap Associates  
Northampton Elderly Apartments  
901 Mill Associates  
Nazareth Senior Apartments Assoc.  
Lexie's Dream Apartments Assoc.

Ferry Street Apartments  
East Penn Place Associates  
Forte Apartments Associates  
Knox Avenue Senior Associates  
Wilson Manor Apartments Assoc.

**VALLEY HOUSING DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 8. PROPERTY AND EQUIPMENT, NET**

Property and equipment consisted of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Land	\$ 254,674	\$ 748,575
Building and site improvements	6,259,841	9,373,352
Furniture and equipment	<u>901,751</u>	<u>2,712,029</u>
Subtotal	7,416,266	12,833,956
Less: accumulated depreciation	<u>(4,690,064)</u>	<u>(7,334,253)</u>
Total	<u>\$ 2,726,202</u>	<u>\$ 5,499,703</u>

Depreciation expense for the years ended December 31, 2019 and 2018 totaled \$171,488 and \$208,859, respectively.

**NOTE 9. NOTES PAYABLE**

Notes payable at December 31, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Second mortgage payable to PHFA bearing interest at 1% and payable out of surplus cash from the Gordon Street project. The loan is secured by the property at Gordon Street in Allentown, PA and matured on June 1, 2017 and is still outstanding as of the audit report date. Management anticipates that as long as the property remains affordable, PHFA will extend the loan indefinitely. Included in accrued expenses is \$77,520 and \$74,440, respectively, of accrued interest related to this mortgage.	\$ 308,000	\$ 318,000
Second mortgage loan to PHFA in connection with the Turner Street Project bearing 0% interest subordinate to the primary mortgage with principal payments payable from surplus cash as determined by PHFA, split 50% to return on equity and 50% to repayment of the mortgage, collateralized by property and equipment. The mortgage is due in 2029.	241,999	255,549
First mortgage loan to PHFA bearing interest at 1% with an effective rate of 1.25% and payable out of surplus cash of the 100 South Third Street project. The loan matured in 2018 and is still outstanding as of the audit report date. Management anticipates that as long as the property remains affordable, PHFA will extend the loan indefinitely. The loan is collateralized by the property at 100 South Third Street. Included in accrued expenses is \$59,636 and \$54,726, respectively, of accrued interest related to this mortgage.	491,048	513,298



**VALLEY HOUSING DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 9. NOTES PAYABLE (continued)**

	<u>2019</u>	<u>2018</u>
Primary mortgage payable to BB&T bank with monthly payments of \$6,106 including interest at 5.5%, with a balloon payment of remaining principal and any accrued interest due on February 28, 2020. The mortgage is collateralized by a first mortgage on the property and was paid off with the sale of the Goepp Street property.	-	727,894
Federal Home Loan Bank note payable dated August 30, 2002 with interest at 0% made through Goepp Street Apartments. The loan is subordinate to first and second mortgages and collateralized by the underlying property. The loan matures in August, 2032 and was satisfied with the sale of the property.	-	186,000
On December 27, 1990, 627 Hamilton Associates received a noninterest bearing PHFA loan, which is secured by a first mortgage on the property. Under the terms of the mortgage loan with PHFA, principal payments are payable from surplus revenue. The loan was paid off upon the sale of the property.	<u>-</u>	<u>797,298</u>
Total notes payable	<u>\$ 1,041,047</u>	<u>\$ 2,798,039</u>

The maturities of notes payable over the next five years and thereafter are as follows:

December 31, 2020	\$ 799,048
2021	-
2022	-
2023	-
2024	-
Thereafter	<u>241,999</u>
Total	<u>\$ 1,041,047</u>

**NOTE 10. TRANSFER OF NET ASSETS FROM ENTITIES UNDER COMMON CONTROL**

During the years ended December 31, 2019 and 2018, VHDC acquired the assets and liabilities of entities which were under common control. Accordingly, the assets and liabilities were combined with VHDC at their carrying amounts and recorded in the period of the transfer. The net assets (equity) that was transferred into VHDC during the years ended December 31, 2019 and 2018 totaled \$639,609 and \$125,702, respectively.

<u>Entity</u>	<u>2019</u>	<u>2018</u>
Washington Avenue Apartments	\$ 639,609	\$ -
Goepp Street Apartments	-	78,980
Restlawn	<u>-</u>	<u>46,722</u>
	<u>\$ 639,609</u>	<u>\$ 125,702</u>

**VALLEY HOUSING DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 10. TRANSFER OF NET ASSETS FROM ENTITIES UNDER COMMON CONTROL (continued)**

A summary of assets and liabilities transferred during the years ended December 31, 2019 and 2018 from entities under common control is as follows:

December 31, 2019:

<u>Account</u>	<u>Washington Avenue Apartments</u>
Cash	\$ 39,926
Restricted cash	34,929
Tenant security deposits	6,235
Account receivable	10,557
Prepaid expenses	5,758
Other assets, net	2,823
Property and equipment, net	630,821
Accounts payable	(2,490)
Prepaid rents	(2,832)
Security deposits payable	(6,235)
Operating deficit notes payable	(29,883)
Cash payment offset	<u>(50,000)</u>
Net assets	<u>\$ 639,609</u>

December 31, 2018:

<u>Account</u>	<u>Goepp Street Apartments</u>	<u>Restlawn</u>	<u>Total</u>
Cash	\$ 74,725	\$ 46,736	\$ 121,461
Restricted cash	90,019	-	90,019
Tenant security deposits	28,528	-	28,528
Account receivable	650	-	650
Prepaid expenses	31,789	-	31,789
Other assets, net	5,251	-	5,251
Property and equipment, net	2,584,929	-	2,584,929
Accounts payable	(3,666)	(14)	(3,680)
Accrued expense	(1,830)	-	(1,830)
Security deposits payable	(28,528)	-	(28,528)
Other liabilities	(7,358)	-	(7,358)
Operating deficit notes payable	(63,569)	-	(63,569)
Notes payable and acc'd interest	<u>(2,631,960)</u>	<u>-</u>	<u>(2,631,960)</u>
Net assets	<u>\$ 78,980</u>	<u>\$ 46,722</u>	<u>\$ 125,702</u>

**VALLEY HOUSING DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 11. COMMITMENTS AND CONTINGENCIES**

As a general partner, VHDC has assumed certain financial guarantees on behalf of the various partnerships. While the guarantees vary, they include such things as requirements to provide letters of credit during construction and limited operational periods, and guarantees related to the loss of tax benefits to investors under certain terms and conditions. Certain operating loss guarantees have no limitation to the maximum potential future payments under those guarantees. Estimates on these guarantees cannot be reasonably determined.

VHDC has also guaranteed through various agreements the operational debts of certain limited partnerships. Many of these partnerships are experiencing various levels of cash flow problems. VHDC could be required to contribute significant amounts of cash annually to the partnerships to support the operating deficits unless changes can be made at the partnership-level to ease this burden. At December 31, 2019 and 2018, future losses from these agreements cannot be reasonably estimated.

**NOTE 12. SUBSEQUENT EVENT**

Subsequent events have been evaluated through November 3, 2020, which is the date the financial statements were available to be issued. The spread of a novel strain of coronavirus (COVID-19) in 2020 has caused significant volatility in U.S. markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. economy. The extent of the impact of COVID-19 on the Partnership's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and the impact on tenants, employees and vendors, all of which are uncertain and cannot be determined at this time.

## **SUPPLEMENTARY INFORMATION**

**VALLEY HOUSING DEVELOPMENT CORPORATION**  
**COMBINING STATEMENT OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2019**

			VALLEY HOUSING		VALLEY HOUSING DEV. CORP.		SUPPORTIVE	PERSONAL	MHMR	MHMR	GORDON	100 SOUTH	MOUNTAIN	TURNER	GOEPP	WASHINGTON AVE		627 HAMILTON														
	COMBINED	ELIM.	DEV. CORP.	TENANT SEC.	HOUSING	CARE HOME	LC	NC	STREET	THIRD ST.	VILLE	STREET	STREET	RESTLAWN	APARTMENTS	ASSOCIATES																
ASSETS																																
Current assets:																																
Cash and cash equivalents	\$	2,648,760	\$	-	\$	2,257,214	\$	11,348	\$	7,667	\$	74,154	\$	12,482	\$	4,809	\$	94,863	\$	48,120	\$	22,747	\$	11,390	\$	32,001	\$	39,926	\$	32,039		
Undesignated		410,801		-		455		370,883		-		-		-		7,194		12,314		9,651		4,069		-		-		6,235		-		
Tenant security deposits																																
Total cash		3,059,561		-		2,257,669		370,883		11,348		7,667		74,154		12,482		12,003		107,177		57,771		26,816		11,390		32,001		46,161		32,039
Accounts receivable, net		185,865		(191,877)		352,917		-		-		1,325		6,356		628		697		1,769		422		3,071		-		-		10,557		-
Prepaid expenses		49,041		-		-		-		-		-		-		-		8,732		13,556		9,955		11,040		-		-		5,758		-
Total current assets		3,294,467		(191,877)		2,610,586		370,883		11,348		8,992		80,510		13,110		21,432		122,502		68,148		40,927		11,390		32,001		62,476		32,039
Restricted cash		361,796		-		7,906		-		-		-		-		-		134,335		115,389		-		69,237		-		-		34,929		-
Accounts receivable - noncurrent, net		36,023		(128,806)		164,829		-		-		-		-		-		-		-		-		-		-		-		-		-
Notes receivable, net		3,471,041		(1,130,911)		4,601,952		-		-		-		-		-		-		-		-		-		-		-		-		-
Developer fees receivable, net		118,419		-		118,419		-		-		-		-		-		-		-		-		-		-		-		-		-
Accrued interest receivable, net		1,313,478		(941,389)		2,254,867		-		-		-		-		-		-		-		-		-		-		-		-		-
Property and equipment, net		2,726,202		-		93,941		-		-		-		-		-		272,025		924,070		519,182		286,163		-		-		630,821		-
Total non-current assets		8,026,959		(2,201,106)		7,241,914		-		-		-		-		-		406,360		1,039,459		519,182		355,400		-		-		665,750		-
TOTAL ASSETS	\$	11,321,426	\$	(2,392,983)	\$	9,852,500	\$	370,883	\$	11,348	\$	8,992	\$	80,510	\$	13,110	\$	427,792	\$	1,161,961	\$	587,330	\$	396,327	\$	11,390	\$	32,001	\$	728,226	\$	32,039
LIABILITIES AND NET ASSETS																																
Current liabilities:																																
Accounts payable	\$	15,893	\$	(191,877)	\$	159,772	\$	-	\$	4,781	\$	-	\$	44	\$	250	\$	509	\$	5,174	\$	23,015	\$	11,700	\$	-	\$	35	\$	2,490	\$	-
Accrued expenses		137,156		(78,000)		-		-		-		-		-		-		77,520		137,636		-		-		-		-		-		-
Tenant security deposits payable		403,978		-		455		364,060		-		-		-		-		7,194		12,314		9,651		4,069		-		-		6,235		-
Prepaid rents		8,701		-		-		-		-		-		-		-		892		3,365		948		13		651		-		2,832		-
Current portion of notes payable		799,048		(407,425)		-		-		-		15,029		-		-		308,000		78,937		671,459		133,048		-		-		-		-
Total current liabilities		1,364,776		(677,302)		160,227		364,060		4,781		-		15,073		250		394,115		237,426		705,073		148,830		651		35		11,557		-
Notes payable, net of current maturities		241,999		(1,715,681)		-		-		-		-		-		-		-		822,409		863,389		241,999		-		-		29,883		-
Total liabilities		1,606,775		(2,392,983)		160,227		364,060		4,781		-		15,073		250		394,115		1,059,835		1,568,462		390,829		651		35		41,440		-
Net assets:																																
Without donor restrictions		9,714,651		-		9,692,273		6,823		6,567		8,992		65,437		12,860		33,677		102,126		(981,132)		5,498		10,739		31,966		686,786		32,039
TOTAL LIABILITIES AND NET ASSETS	\$	11,321,426	\$	(2,392,983)	\$	9,852,500	\$	370,883	\$	11,348	\$	8,992	\$	80,510	\$	13,110	\$	427,792	\$	1,161,961	\$	587,330	\$	396,327	\$	11,390	\$	32,001	\$	728,226	\$	32,039

**VALLEY HOUSING DEVELOPMENT CORPORATION**  
**COMBINING STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

			VALLEY HOUSING	VALLEY HOUSING DEV. CORP.	SUPPORTIVE	PERSONAL	MHMR	MHMR	GORDON	100 SOUTH	MOUNTAIN	TURNER	GOEPP	WASHINGTON AVE		627 HAMILTON
	COMBINED	ELIM.	DEV. CORP.	TENANT SEC.	HOUSING	CARE HOME	LC	NC	STREET	THIRD ST	VILLE	STREET	STREET	RESTLAWN	APARTMENTS	ASSOCIATES
<b>REVENUES, GAINS, (LOSSES), AND OTHER SUPPORT:</b>																
Government contracts and grants	\$ 737,089	\$ -	\$ -	\$ -	\$ 352,982	\$ -	\$ 36,402	\$ 8,479	\$ 46,541	\$ 96,926	\$ 60,852	\$ 98,354	\$ -	\$ -	\$ 22,033	\$ 14,520
Rental income	812,021	-	21,780	-	-	-	-	-	92,049	128,440	84,248	32,367	343,255	10,887	77,801	21,194
Management fees	74,490	-	74,490	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest income	462,558	(80,272)	536,860	6	-	-	-	-	2,603	2,268	-	1,081	12	-	-	-
Gain / (loss) on sale of assets	444,144	-	(281,974)	-	-	-	-	-	-	-	-	-	102,962	-	-	623,156
Other income	64,574	-	30,346	-	-	-	-	-	862	2,773	4,949	2,893	4,859	5	10,323	7,564
<b>Total revenues, gains, (losses), and other support</b>	<b>2,594,876</b>	<b>(80,272)</b>	<b>381,502</b>	<b>6</b>	<b>352,982</b>	<b>-</b>	<b>36,402</b>	<b>8,479</b>	<b>142,055</b>	<b>230,407</b>	<b>150,049</b>	<b>134,695</b>	<b>451,088</b>	<b>10,892</b>	<b>110,157</b>	<b>666,434</b>
<b>EXPENSES:</b>																
Salaries, wages, and benefits	159,400	-	-	-	22,311	-	6,918	81	19,896	22,881	19,896	13,927	33,501	2,840	9,941	7,208
Utilities	157,852	-	-	-	7,498	-	4	4	14,415	30,099	8,005	21,030	41,243	15	19,367	16,172
Office expense	94,924	-	5,989	-	8,178	-	1,063	950	8,259	7,847	6,882	5,479	29,834	2,003	9,327	9,113
Professional fees	89,450	-	39,503	-	-	-	208	240	6,739	7,656	976	7,192	7,272	196	10,007	9,461
Insurance	97,574	-	8,420	-	9,486	-	111	111	9,216	11,982	10,792	8,947	35,837	403	80	2,189
Maintenance	515,908	-	1,492	-	-	-	4,901	173	64,655	84,227	54,182	44,209	152,288	19,574	39,375	50,832
Interest and financing costs	45,413	(80,272)	-	-	-	-	-	-	3,080	7,910	80,272	-	34,423	-	-	-
Depreciation and amortization	171,488	-	7,781	-	-	-	-	-	26,260	54,271	53,413	29,763	-	-	-	-
Rental property expense	309,500	-	-	-	301,459	-	-	7,410	-	-	129	78	256	26	90	52
Real estate taxes	162,446	-	2,723	-	-	-	-	2	12,824	22,608	19,603	16,883	74,973	-	12,614	216
Bad debt expense	236,525	-	216,948	-	-	-	-	-	-	-	3,980	660	1,820	-	12,179	938
<b>Total expenses</b>	<b>2,040,480</b>	<b>(80,272)</b>	<b>282,856</b>	<b>-</b>	<b>348,932</b>	<b>-</b>	<b>13,205</b>	<b>8,971</b>	<b>165,344</b>	<b>249,481</b>	<b>258,130</b>	<b>148,168</b>	<b>411,447</b>	<b>25,057</b>	<b>112,980</b>	<b>96,181</b>
<b>Change in net assets</b>	<b>554,396</b>	<b>-</b>	<b>98,646</b>	<b>6</b>	<b>4,050</b>	<b>-</b>	<b>23,197</b>	<b>(492)</b>	<b>(23,289)</b>	<b>(19,074)</b>	<b>(108,081)</b>	<b>(13,473)</b>	<b>39,641</b>	<b>(14,165)</b>	<b>(2,823)</b>	<b>570,253</b>
<b>Net assets - beginning</b>	<b>8,520,646</b>	<b>-</b>	<b>9,499,101</b>	<b>6,817</b>	<b>2,517</b>	<b>8,992</b>	<b>42,240</b>	<b>13,352</b>	<b>56,966</b>	<b>121,200</b>	<b>(873,051)</b>	<b>18,971</b>	<b>115,624</b>	<b>46,131</b>	<b>-</b>	<b>(538,214)</b>
<b>Transfer of net assets (deficit) from entities under common control</b>	<b>639,609</b>	<b>-</b>	<b>(50,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>689,609</b>	<b>-</b>
<b>Equity transfers among programs</b>	<b>-</b>	<b>-</b>	<b>144,526</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(144,526)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net assets - ending</b>	<b>\$ 9,714,651</b>	<b>\$ -</b>	<b>\$ 9,692,273</b>	<b>\$ 6,823</b>	<b>\$ 6,567</b>	<b>\$ 8,992</b>	<b>\$ 65,437</b>	<b>\$ 12,860</b>	<b>\$ 33,677</b>	<b>\$ 102,126</b>	<b>\$ (981,132)</b>	<b>\$ 5,498</b>	<b>\$ 10,739</b>	<b>\$ 31,966</b>	<b>\$ 686,786</b>	<b>\$ 32,039</b>

**VALLEY HOUSING DEVELOPMENT CORPORATION**  
**COMBINING STATEMENT OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2018**

			VALLEY HOUSING	VALLEY HOUSING DEV. CORP.	SUPPORTIVE	PERSONAL	MHMR	MHMR	GORDON	100 SOUTH	MOUNTAIN	TURNER	GOEPP ST		627 HAMILTON
	COMBINED	ELIM.	DEV. CORP.	TENANT SEC.	HOUSING	CARE HOME	LC	NC	STREET	THIRD ST.	VILLE	STREET	APPTS	RESLAWN	ASSOCIATES
<b>ASSETS</b>															
<b>Current assets:</b>															
Cash and cash equivalents															
Undesignated	\$ 2,036,578	\$ -	\$ 1,606,550	\$ -	\$ 8,892	\$ 7,667	\$ 45,549	\$ 2,689	\$ 24,943	\$ 77,824	\$ 25,378	\$ 43,115	\$ 90,535	\$ 46,690	\$ 56,746
Tenant security deposits	472,149	-	455	402,033	-	-	-	-	6,996	12,707	9,644	4,344	28,874	-	7,096
<b>Total cash</b>	<b>2,508,727</b>	<b>-</b>	<b>1,607,005</b>	<b>402,033</b>	<b>8,892</b>	<b>7,667</b>	<b>45,549</b>	<b>2,689</b>	<b>31,939</b>	<b>90,531</b>	<b>35,022</b>	<b>47,459</b>	<b>119,409</b>	<b>46,690</b>	<b>63,842</b>
Accounts receivable, net	418,355	(223,805)	605,009	-	-	1,325	12,420	10,875	1,211	1,546	1,660	3,499	2,523	-	2,092
Prepaid expenses	87,478	-	-	-	-	-	-	-	8,153	12,699	9,675	10,570	33,033	-	13,348
<b>Total current assets</b>	<b>3,014,560</b>	<b>(223,805)</b>	<b>2,212,014</b>	<b>402,033</b>	<b>8,892</b>	<b>8,992</b>	<b>57,969</b>	<b>13,564</b>	<b>41,303</b>	<b>104,776</b>	<b>46,357</b>	<b>61,528</b>	<b>154,965</b>	<b>46,690</b>	<b>79,282</b>
Restricted cash	525,027	-	7,899	-	-	-	-	-	124,824	113,192	-	50,739	90,022	-	138,351
Accounts receivable - noncurrent, net	17,617	(184,093)	201,710	-	-	-	-	-	-	-	-	-	-	-	-
Notes receivable, net	1,957,374	(2,340,113)	4,297,487	-	-	-	-	-	-	-	-	-	-	-	-
Developer fees receivable, net	118,419	-	118,419	-	-	-	-	-	-	-	-	-	-	-	-
Accrued interest receivable, net	830,667	(1,758,900)	2,589,567	-	-	-	-	-	-	-	-	-	-	-	-
Property and equipment, net	5,499,703	-	101,722	-	-	-	-	-	294,886	973,091	572,595	315,926	2,600,721	-	640,762
<b>Total non-current assets</b>	<b>8,948,807</b>	<b>(4,283,106)</b>	<b>7,316,804</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>419,710</b>	<b>1,086,283</b>	<b>572,595</b>	<b>366,665</b>	<b>2,690,743</b>	<b>-</b>	<b>779,113</b>
<b>TOTAL ASSETS</b>	<b>\$ 11,963,367</b>	<b>\$ (4,506,911)</b>	<b>\$ 9,528,818</b>	<b>\$ 402,033</b>	<b>\$ 8,892</b>	<b>\$ 8,992</b>	<b>\$ 57,969</b>	<b>\$ 13,564</b>	<b>\$ 461,013</b>	<b>\$ 1,191,059</b>	<b>\$ 618,952</b>	<b>\$ 428,193</b>	<b>\$ 2,845,708</b>	<b>\$ 46,690</b>	<b>\$ 858,395</b>
<b>LIABILITIES AND NET ASSETS</b>															
<b>Current liabilities:</b>															
Accounts payable	\$ 115,125	\$ (223,805)	\$ 29,262	\$ -	\$ 6,375	\$ -	\$ 700	\$ 212	\$ 3,960	\$ 3,643	\$ 27,691	\$ 16,252	\$ 8,609	\$ 559	\$ 241,667
Accrued expenses	131,919	(75,000)	-	-	-	-	-	-	74,440	129,726	-	-	2,753	-	-
Tenant security deposits payable	465,333	-	455	395,216	-	-	-	-	6,996	12,707	9,645	4,344	28,874	-	7,096
Prepaid rents	8,349	-	-	-	-	-	-	-	651	187	91	29	7,358	-	33
Current portion of notes payable	868,740	(2,008,844)	-	-	-	-	15,029	-	318,000	592,235	671,459	133,048	-	-	1,147,813
<b>Total current liabilities</b>	<b>1,589,466</b>	<b>(2,307,649)</b>	<b>29,717</b>	<b>395,216</b>	<b>6,375</b>	<b>-</b>	<b>15,729</b>	<b>212</b>	<b>404,047</b>	<b>738,498</b>	<b>708,886</b>	<b>153,673</b>	<b>47,594</b>	<b>559</b>	<b>1,396,609</b>
Notes payable, net of current maturities	1,853,255	(2,199,262)	-	-	-	-	-	-	-	331,361	783,117	255,549	2,682,490	-	-
<b>Total liabilities</b>	<b>3,442,721</b>	<b>(4,506,911)</b>	<b>29,717</b>	<b>395,216</b>	<b>6,375</b>	<b>-</b>	<b>15,729</b>	<b>212</b>	<b>404,047</b>	<b>1,069,859</b>	<b>1,492,003</b>	<b>409,222</b>	<b>2,730,084</b>	<b>559</b>	<b>1,396,609</b>
<b>Net assets:</b>															
Without donor restrictions	8,520,646	-	9,499,101	6,817	2,517	8,992	42,240	13,352	56,966	121,200	(873,051)	18,971	115,624	46,131	(538,214)
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 11,963,367</b>	<b>\$ (4,506,911)</b>	<b>\$ 9,528,818</b>	<b>\$ 402,033</b>	<b>\$ 8,892</b>	<b>\$ 8,992</b>	<b>\$ 57,969</b>	<b>\$ 13,564</b>	<b>\$ 461,013</b>	<b>\$ 1,191,059</b>	<b>\$ 618,952</b>	<b>\$ 428,193</b>	<b>\$ 2,845,708</b>	<b>\$ 46,690</b>	<b>\$ 858,395</b>

**VALLEY HOUSING DEVELOPMENT CORPORATION**  
**COMBINING STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

			VALLEY HOUSING	VALLEY HOUSING DEV. CORP.	SUPPORTIVE	PERSONAL	MHMR	MHMR	GORDON	100 SOUTH	MOUNTAIN	TURNER	GOEPP ST		627 HAMILTON
	COMBINED	ELIM.	DEV. CORP.	TENANT SEC.	HOUSING	CARE HOME	LC	NC	STREET	THIRD ST	VILLE	STREET	APPTS	RESTLAWN	ASSOCIATES
<b>REVENUES, GAINS, (LOSSES) AND OTHER SUPPORT:</b>															
Government contracts and grants	\$ 515,470	\$ -	\$ -	\$ -	\$ 373,711	\$ 6,232	\$ 49,917	\$ 22,230	\$ -	\$ -	\$ 63,380	\$ -	\$ -	\$ -	\$ -
Rental income	1,195,573	-	21,618	-	-	-	-	-	141,975	222,819	72,270	155,259	429,432	11,412	140,788
Management fees	71,914	-	71,914	-	-	-	-	-	-	-	-	-	-	-	-
Interest income	540,284	(79,044)	615,230	23	-	-	-	-	1,311	1,012	-	402	45	-	1,305
Gain / (loss) on sale of assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other income	66,115	-	31,074	-	300	-	-	-	1,401	3,610	3,944	2,063	19,052	-	4,671
Total revenues, gains, (losses) and other support	2,389,356	(79,044)	739,836	23	374,011	6,232	49,917	22,230	144,687	227,441	139,594	157,724	448,529	11,412	146,764
<b>EXPENSES:</b>															
Salaries, wages, and benefits	240,842	-	13,818	-	12,435	-	7,092	-	28,370	32,626	20,142	19,859	36,299	2,689	67,512
Utilities	161,182	-	-	-	7,312	-	4	3	14,467	30,176	7,582	19,487	46,957	151	35,043
Office expense	97,566	-	6,330	(13)	20,022	-	2,692	861	6,584	5,501	5,615	3,878	37,126	2,024	6,946
Professional fees	62,919	-	11,556	-	-	-	106	154	6,559	7,393	660	10,169	14,645	132	11,545
Insurance	112,334	-	14,064	-	15,332	-	(38)	(34)	11,594	12,595	12,176	10,261	22,303	286	13,795
Maintenance	398,499	-	16,525	-	-	-	4,358	197	47,791	56,193	49,918	43,837	136,371	6,698	36,611
Interest and financing costs	56,889	(79,044)	(1,687)	-	-	-	-	-	3,280	10,045	74,951	-	49,344	-	-
Depreciation and amortization	208,859	-	-	-	-	-	-	-	25,259	55,113	54,558	29,837	-	-	44,092
Rental property expense	349,469	-	-	-	324,762	5,569	-	18,678	-	-	118	-	319	23	-
Real estate taxes	153,789	-	2,692	-	-	-	-	7	11,855	22,314	18,176	15,935	52,041	-	30,769
Partner transfer fees	41,969	-	41,969	-	-	-	-	-	-	-	-	-	-	-	-
Bad debt expense	30,032	-	-	-	-	-	-	-	857	(323)	797	2,008	16,480	-	10,213
Total expenses	1,914,349	(79,044)	105,267	(13)	379,863	5,569	14,214	19,866	156,616	231,633	244,693	155,271	411,885	12,003	256,526
Change in net assets	475,007	-	634,569	36	(5,852)	663	35,703	2,364	(11,929)	(4,192)	(105,099)	2,453	36,644	(591)	(109,762)
Net assets - beginning	7,919,937	-	8,820,482	6,781	8,369	8,329	6,537	10,988	68,895	169,442	(767,952)	16,518	-	-	(428,452)
Transfer of net assets (deficit) from entities under common control	125,702	-	-	-	-	-	-	-	-	-	-	-	78,980	46,722	-
Equity transfers among programs	-	-	44,050	-	-	-	-	-	-	(44,050)	-	-	-	-	-
Net assets - ending	\$ 8,520,646	\$ -	\$ 9,499,101	\$ 6,817	\$ 2,517	\$ 8,992	\$ 42,240	\$ 13,352	\$ 56,966	\$ 121,200	\$ (873,051)	\$ 18,971	\$ 115,624	\$ 46,131	\$ (538,214)