



*For the period from July 7, 2021 (commencement of operations)
through December 31, 2021*

**Financial Statements
and
Independent Auditor's Report**



PISENTI & BRINKER LLP
Certified Public Accountants & Advisors

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Independent Auditor's Report

The Board of Directors
RED Housing Fund
Santa Rosa, California

Opinion

We have audited the accompanying financial statements of RED Housing Fund (the “Organization”), which comprise the statement of financial position for the period from July 7, 2021 (commencement of operations) through December 31, 2021, the related statements of activities, functional expenses, and cash flows for the period 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 for the period from July 7, 2021 through December 31, 2021, and the changes in its net assets and its cash flows for the period 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.

A handwritten signature in black ink that reads "Presenti & Brinku LLP". The signature is written in a cursive, flowing style.

Santa Rosa, California
June 17, 2022

RED Housing Fund
Statement of Financial Position

December 31, 2021

Assets

Current assets

Cash and cash equivalents	\$ 20,342,322
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Liabilities and net assets

Current liabilities

Accounts payable	\$ 25,836
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Noncurrent liabilities

Long-term loans, net of debt discount on below market rate loans	13,765,014
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Total liabilities	13,790,850
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Net assets

Without donor restrictions	316,486
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With donor restrictions	6,234,986
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Total net assets	6,551,472
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Total liabilities and net assets	\$ 20,342,322
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See accompanying notes

**RED Housing Fund
Statement of Activities**

For the period from July 7, 2021 through December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support			
Grant and contribution income	\$ 487,000	\$ 6,273,926	\$ 6,760,926
Net assets released from time restrictions	38,940	(38,940)	-
Total revenue	525,940	6,234,986	6,760,926
Expenses			
Program	143,940	-	143,940
Management and general	65,514	-	65,514
Total expenses	209,454	-	209,454
Changes in net assets	316,486	6,234,986	6,551,472
Net assets at beginning of period	-	-	-
Net assets at end of period	\$ 316,486	\$ 6,234,986	\$ 6,551,472

See accompanying notes

RED Housing Fund
Statement of Functional Expenses

For the period from July 7, 2021 through December 31, 2021

	Program	Management and General	Total
Consulting	\$ 105,000	\$ 45,000	\$ 150,000
Interest	38,940	-	38,940
Management fees	-	12,500	12,500
Legal	-	7,586	7,586
Other	-	428	428
Total expenses	\$ 143,940	\$ 65,514	\$ 209,454

See accompanying notes

RED Housing Fund
Statement of Cash Flows

For the period from July 7, 2021 through December 31, 2021

	Increase in cash and cash equivalents
Cash flows from operating activities	
Change in net assets	\$ 6,551,472
Adjustments to reconcile net assets to cash provided by operating liabilities:	
Debt discount on below market rate loans	(6,273,926)
Amortization of debt discount on below market rate loans	38,940
Increase in operating liabilities:	
Accounts payable	25,836
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Net cash provided by operating activities	342,322
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Cash flows from financing activities	
Proceeds from loan-term loans	20,000,000
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Net increase in cash and cash equivalents	20,342,322
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Cash and cash equivalents at beginning of period	-
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Cash and cash equivalents at end of period	\$ 20,342,322

See accompanying notes

For the period from July 7, 2021 through December 31, 2021

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.

For the period from July 7, 2021 through December 31, 2021

Note B. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Organization maintains cash balances with financial institutions. Funds are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000. Through the ordinary course of business, the Organization may have cash balances in excess of FDIC limits. Management has not experienced any losses related to these balances and believes the risk to be minimal.

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.

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.

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 period from July 7, 2021 through December 31, 2021, since management determined that the Organization had no unrelated business income.

Imputed Interest Expense

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

For the period from July 7, 2021 through December 31, 2021

Note B. Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

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

Future Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-02, *Leases (Topic 842)*. This standard requires entities that lease assets to recognize on the statement of financial position, the assets and liabilities for the rights and obligations created by those leases. For nonpublic companies the new guidance will be required for annual reporting periods beginning after December 15, 2021, and interim and annual reporting periods after those reporting periods. Nonpublic companies and organizations may elect early application, but no earlier than the effective date for public entities. The Organization is currently evaluating the impact of this new guidance on its financial statements.

New Accounting Pronouncements

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which distinguishes the difference between contributions and exchange transactions. This ASU is effective for fiscal years beginning after December 15, 2019, with early application permitted. The Organization adopted this standard during the year ended December 31, 2021, which did not have a significant impact on the financial statements.

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 programs 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 period July 7, 2021 through December 31, 2021.

Note D. Long-Term Loan Payables

The Organization received a loan at a 0.00% interest rate from a municipal corporation for \$10,000,000 on October 29, 2021. The outstanding principal balance is payable in full in one lump-sum payment on October 29, 2041. The loan proceeds shall be used solely to provide financing to support the development of housing projects that are consistent with project criteria adopted by the Board of Directors of Renewal Enterprise District (“RED”) and consistent with the lender’s requirements.

For the period from July 7, 2021 through December 31, 2021

Note D. Long-Term Loan Payables (continued)

The Organization received a loan at a 0.00% interest rate from another municipal corporation for \$10,000,000 on November 4, 2021. The outstanding principal balance is payable in full in one lump-sum payment on November 4, 2041. The loan proceeds shall be used solely to provide financing to support the development of housing projects that are consistent with project criteria adopted by the Board of Directors of Renewal Enterprise District (“RED”) and consistent with the lender’s requirements. All or a portion of the loan may be forgiven in accordance with the loan requirements, however, it is uncertain how much, if any, will be forgiven at the time these financial statements were available to be issued.

Both loans received were at below market interest rates. Debt discount and donor restricted contributions of \$3,136,963 were recorded for each loan based on management’s estimated imputed interest rate of 1.9%. During the period from July 7, 2021 through December 31, 2021, \$20,363 and \$18,577 of debt discount was amortized to interest expense, respectively.

Note E. 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:

For the period from July 7, 2021 through December 31, 2021

With donor restrictions:	
Implicit time restriction	\$ 6,234,986
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Total net assets with donor restrictions	6,234,986
Without donor restrictions:	
Undesignated	316,486
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Total net assets without donor restrictions	316,486
Net assets	\$ 6,551,472

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 period from July 7, 2021 through December 31, 2021, \$38,940 were released from restrictions as the passage of time restrictions were met.

Note F. Subsequent Events

The Organization has evaluated subsequent events through June 17, 2022, the date on which the financial statements were available to be issued.