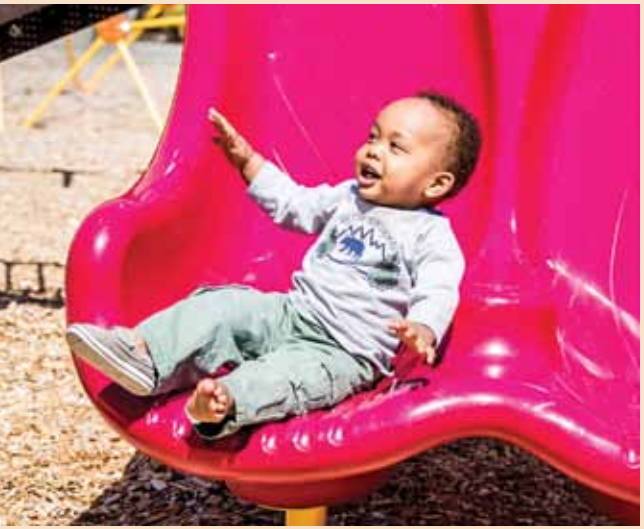
WASHINGTON COMMUNITY REINVESTMENT ASSOCIATION

WCRA ANNUAL REPORT 2015

Meeting Washington's Affordable Housing Needs Through Partnership



WCRA Mission Statement

To be a catalyst for the creation and preservation of affordable housing in Washington state.

To expand resources for real estate based community development in Washington state.

To be a voice for its member financial institutions on affordable housing and community development issues.

To provide a dynamic risk sharing vehicle to maximize private investment in community development throughout Washington state.

To operate within a strategic and financially prudent structure.

To work with public sector entities to promote public/private partnerships that achieve maximum leverage of public dollars.

To provide value to its members and the communities they serve that will generate and sustain support for WCRA's long term operation and success.

WASHINGTON COMMUNITY REINVESTMENT ASSOCIATION

2015 ANNUAL REPORT

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MT. BAKER LOFTS – SEATTLE

Mt. Baker Lofts is a newly constructed 57-unit multifamily affordable housing development located in the Rainier Valley neighborhood of Seattle. The borrower's nonprofit sponsor is Artspace Projects, Inc. (Artspace), a nonprofit corporation based in Minneapolis, Minnesota. Artspace was formed in 1979 as an advocate for artists for whom finding and retaining affordable live/work spaces was an enduring problem. Anyone who qualifies for affordable housing may apply for residency in an Artspace building, but preference is given to applicants who participate in, and are committed to, the arts. Artspace owns affordable housing properties nationwide.

The Mt. Baker Lofts are situated in one building, with commercial space on the ground floor and apartments on floors two through four. The units are rented to tenants earning no more than 30% – 60% of AMI, with 20% of the units reserved for persons with disabilities. The apartment types include studios, one bedroom and three bedroom units. All units boast open floor plans with spacious 10.5 foot ceilings, extra space to use as a studio and wide windows and doors. The roof of the building is open to residents and is home to a lovely roof top deck with P-Patch, laundry room and plenty of comfortable seating. The views of Mount Rainier and downtown Seattle are stunning. On the first floor there is bike storage, a music practice room, an outdoor plaza and a large community room with kitchen. Cooperation with neighbors and community involvement is strongly encouraged, and is indeed noticeable from all tenants. The pride and ownership in the Artspace building and community is palpable.

The commercial space on the first floor of the building is also owned by Artspace, who prioritizes local businesses for tenancy. There is a coffee shop, a Capoeira Center, a grocery/deli, the Urban Wilderness Works, two art galleries, a child modeling agency, a neighborhood center for the arts, and a child care center.

There is a light rail station directly behind the building, so tenants have direct access to transportation and the decision was taken to shave the project budget by not building parking spaces. The light rail runs north to downtown Seattle and south to Sea-Tac Airport. A bus stop in front of the building serves 5 routes and Zip Car has a designated parking spot at the property, providing another transportation option for residents.

Karen Ruth

Karen is a mixed media artist who moved into Mt. Baker Lofts in July 2014. She has a Master's Degree in Library Science and is medically retired. She had been living in affordable housing close to Capitol Hill that had a 60% AMI rent restriction, but found that it was still too expensive for her. Now that she is in a 40% AMI unit she has been able to open her own business and work from her apartment, which has changed her life. Karen loves the community of artists at Mt. Baker Lofts, and really enjoys living next to the light rail, which she can watch as it travels past her windows, surprisingly quiet. Some of her favorite things about living at Mt. Baker Lofts are her cozy bedroom in her loft and how safe she feels at the property, as well as the close proximity to a farmer's market.

Chau Huynh

Chau Huynh and her family moved into Mt. Baker Lofts in the summer of 2014. Chau is a Vietnamese-American painter and mixed media artist and holds an MFA from the University of California, Davis. Prior to moving to a three bedroom unit at Mt. Baker Lofts they had lived a few blocks away and love the location and easy access to transit.

Admassu Guessese

Admassu is a resident of Mt. Baker Lofts and also owns and operates Tobya Art Gallery, one of the art galleries at street level. Admassu loves the community of artists and has a deep commitment to maintaining art as an integral and important part of the immigrant culture.
He moved to Washington from Ethiopia in 2008 and has an undergraduate degree in Art History and International Studies. His gallery showcases building residents as well as other local artists.

TAMARACK PLACE – SEATTLE

The borrower on this property has the Seattle Housing Authority (SHA) as its nonprofit sponsor. Since 1939, SHA has worked to provide safe, decent, sanitary and affordable housing to low-income families and the elderly in Seattle. Funding partners include the HUD Hope VI program (which funds the redevelopment of distressed public housing), American Recovery and Reinvestment Act Stimulus funds, and tax credits.

Tamarack Place Apartments is a newly built, 83-unit multifamily affordable housing complex in South Seattle's Rainier Valley neighborhood, located within the Rainier Vista Hope VI redevelopment. All units are rented at 50% – 60% of AMI, with 10 units reserved for people with disabilities. The units are in a single four-story structure that overlooks a picturesque courtyard. The first floor combines commercial and residential units, while two through four are strictly residential. The apartments are a mix of one, two and three bedrooms. There are common rooms on the second and fourth floors, a children's play area and storage for bicycles and personal items throughout the floors.

Adjacent to the building is a Boys and Girls Club, sports field and playground, which are all available for use by Tamarack residents. The commercial space on the first floor consists of local professional services, including an optometrist, insurance agency and attorney's office. SHA's Impact Property Management office is also located here, along with a restaurant and various retail stores. Public transportation is easily accessible, with a light rail and bus stops less than a block away. The readily available public transit options allow residents to commute to work, grocery stores and other appointments with little difficulty.

Christina Covert

Christina has lived at Tamarack for 5 years and has three children. She works as a dental assistant and loves the easy access to transit for her job. Her kids think riding the light rail is an adventure, which is an added bonus. Christina grew up in the area and has watched the community grow and change. She went to the same Boys and Girls Club that is next to Tamarack Place when she was a child, and some of the same staff remain. Christina also appreciates the closeness and support of the "community of moms" at Tamarack Place, and how everyone looks out for each other's kids on the playground and in common areas. Christina and her kids have a P-Patch nearby and the kids love taking transit to a local ice cream shop.

Hoa Tran

Hoa has lived at Tamarack place for 4 years in a ground floor apartment that is adjacent to a secure courtyard. Prior to living at Tamarack, Hoa had lived in SeaTac and other areas of Seattle. She has a 15 year-old daughter with Down's Syndrome and is her primary care taker. She loves the openness and fresh air of the courtyard, as well as the security and accessibility of her unit, and really appreciates the proximity to transit for shopping and appointments.

VELOCITY APARTMENTS – KIRKLAND

The 58-unit multifamily affordable housing project Velocity Apartments is located in Kirkland. The borrower has Imagine Housing (IH) as its nonprofit sponsor. The mission of IH is to ensure that every individual and family in East King County has stable housing and strong support, regardless of income. Funding partners for the project include the Washington State Housing Trust Fund, King County, A Regional Coalition for Housing (ARCH) and a tax credit investor.

Velocity is a transit oriented, mixed-use development condominium. Its 58 units are in one condominium unit, with a second building developed under separate and private ownership providing market rate housing and commercial/retail space. Underground parking is available to residents. All housing units are rented at 30% – 60% AMI. In addition, 21% of the units are reserved for formerly homeless and disabled residents. The property is located just outside the South Kirkland Park and Ride facility which is owned and operated by King County. This facility provides easy access via public transit to Kirkland, Bellevue, downtown Seattle, and Seattle's University District.

Common amenities include a large community room that contains a kitchen and gas fireplace. Each floor has a laundry room and storage spaces. There is also a bicycle storage and repair area and exercise center. The 6,400 square foot rooftop deck displays native vegetation and residents may garden in raised beds, enjoy the television and kitchen in the rooftop lounge, and relish the views while seated outdoors. The units are a mix of studios, one, two and three bedrooms all designed according to the principles of universal design.


VEL CITY

MARCUS PLACE – COLFAX, WASHINGTON

CAPITAL PLUS! Featured Project: Marcus Place

Marcus Place is the only senior housing complex with rental assistance in Colfax, Washington, and is operated by The Community Action Center (CAC). The CAC is an agency formed in 1988 that serves low income individuals and families in Whitman County. It provides affordable and subsidized housing, energy assistance, emergency assistance, education and employment training. It also operates a food bank.

Marcus Place was built in 1979 and 1980 with financing from the United States Department of Agriculture and the United States Department of Housing and Urban Development. When the owner of the property decided to sell, the CAC realized the only way to maintain the housing as affordable units for people with low income was to purchase and rehabilitate the property. The original financing plan was to fund the purchase from the Housing Trust Fund and to finance the rehab with a Federal Home Loan Bank affordable housing grant plus a conventional loan from a local community bank. Unfortunately the community bank had not fully recovered from the 2008 financial crisis and was unable to fulfill their commitment to provide a loan. To make up for the lost financing, the CAC applied to the WCRA for a *Capital Plus!* loan and used this loan to fill the financing gap and complete the renovations. The Washington State Housing Trust Fund, Whitman County and the Federal Home Loan Bank provided additional funding for acquisition and renovations.

Marcus Place is an 18 unit property with all units reserved for disabled or elderly people at 50% of AMI or less. The property features a fenced courtyard with gazebo, common area meeting room, two laundry rooms, and resident storage. The renovations included additional parking, window and sliding glass door replacement, roof repair, and upgrades to unit kitchens and bathrooms.

THE *CAPITAL PLUS!* PROGRAM assists nonprofit organizations that otherwise may not have access to financing. It is a partnership of the Washington Community Reinvestment Association and the Washington State Housing Finance Commission.

Capital Plus! is a $7.5 million dollar fund for Washington 501(c)(3) nonprofits that need to finance housing, capital facilities owned and operated by the nonprofit, and/or equipment purchase or capital leases.

Washington 501(c)(3) organizations that serve or provide community services with consideration to lower income persons or persons with special needs are eligible to apply for financing.

Loans may be in any amount up to a maximum of $500,000 with terms up to 10 years.

Contact WCRA to learn more.

CHAIR AND PRESIDENT'S LETTER

At the end of our 2015 year, we have completed our 23rd year of operations. It was a successful year providing a continued increase in net assets. Our cash and investments grew to a new high balance of over $3 million. Sunwest Bank and Beneficial State Bank, our two new members added during the year, brought the total bank membership to 39. Through their commitments, we increased our Pool 1 total availability to over $99 million, and with all other funds, a total lending capacity of over $140 million.

The big news for the year was the Board of Directors approval of the agent bank change to our subsidiary, 1200 FIFTH LLC. After that decision was made, we created our processes and procedures to ensure a smooth transition for both our member banks and our borrowers. This change meant that our original agent, Bank of America, was handing over the duties to us. There are not enough ways to offer our thanks and appreciation for all the years they provided the agent bank service to our organization.

This year we received 5 applications totaling over $9 million, including one *Capital Plus!* transaction. The *Capital Plus!* loan was to finance equipment and tenant improvements for a school. They train students for employment and career opportunities in video/electronic game development and 3D animation for film, television and associated industries. These funds are provided under a special Memorandum of Understanding with the Washington State Housing Finance Commission.

Our loans closed created and/or preserved 328 units of affordable rental housing and a condominium commercial unit with 12 office/retail spaces over the residential units. The apartments are located in Bellingham, Everett, Kirkland, Seattle, Spokane and Woodland. Five of the properties were developed by nonprofit sponsors who received tax credits with a range of affordability from 30 to 60 percent of the area median income.

We are very pleased to have five Transit Oriented Development ("TOD") properties, including loans closed and commitments, located in communities in King County. This opportunity to join the local emphasis on TOD affordable housing is a credit to the WCRA loan programs in support of community goals. The buildings are very close to regional transit so most tenants are able to avoid the cost of having an automobile to get to work or other appointments.

The WCRA loan portfolio has no delinquent loans, indicating that our borrowers are very conscientious about their obligations and their commitment to affordable housing. Each year the WCRA inspects the properties in the portfolio including a percentage of unit interiors. We have low vacancy rates within the buildings in all communities of the State.

There are only five out of thirty-nine counties in Washington State that have not received funding for an affordable housing property or economic development loan from the WCRA. We continue to try to expand our investments into all counties and cities statewide. According to the State of Washington Housing Needs Assessment published in January of this year, there is continued need for affordable housing in urban, suburban and rural communities across the state.

We are very fortunate to have strong support from our Board of Directors, and a very knowledgeable and dedicated loan committee. The member bank financial commitments that provide the funds we need to complete our pool lending programs cannot be emphasized enough. The Washington State Housing Finance Commission *Capital Plus!* program gives us additional funding for nonprofit borrowers. The contract covering our longstanding relationship with the Department of Commerce for construction oversight was renewed, so we continue to keep that very valuable relationship in place.

2015 — A successful year indeed!

John Swanson
Chair

Susan M. Duren
President

BOARDS AND COMMITTEES

WCRA 2015 Loan Committee

Lauren Jassny, The Commerce Bank of Washington – *Chair*

Scott Catton, Bank of America

Patrick Horan, Columbia Bank

Jon Shelton, First Sound Bank

Javier Guzman, JPMorgan Chase, N.A.

Dana Amrine, KeyBank

Ric Gaunt, Umpqua Bank

Tim Grant, Washington Federal

Amy Mandell, Wells Fargo Bank

Susan M. Duren, WCRA

Dulcie Claassen, WCRA

WCRA 2015 Board of Directors

John Swanson, Umpqua Bank – *Chair*

Michael Dotson, Bank of America – *Vice Chair*

Susan M. Duren, WCRA – *President*

Guillermo Sandoval, Banner Bank – *Secretary*

Christine Roveda, Wells Fargo Bank – *Treasurer*

Alice Carr, JPMorgan Chase, N.A.

Jay Coleman, KeyBank

Mark Hatate, Washington Federal

Mike Gilmore, Yakima Federal Savings and Loan Assoc.

Diane Klontz, Washington State Dept. of Commerce

M.A. Leonard, Enterprise Community Partners

Judith Olsen, Impact Capital

Paul Edwards, Washington State Housing Finance Commission

WCRA 2015 Membership

1st Security Bank of Washington

Anchor Bank

Bank of America

Bank of the Pacific

Bank of the West

Banner Bank

Beneficial State Bank

Cashmere Valley Bank

Cathay Bank

Columbia Bank

The Commerce Bank of Washington, N.A.

East West Bank

First Citizens Bank

First Federal Savings & Loan Assn. of Port Angeles

First Financial Northwest Bank

First Sound Bank

Foundation Bank

Heritage Bank

HomeStreet Bank

JPMorgan Chase, N.A.

KeyBank

Kitsap Bank

MUFG Union Bank, N.A.

North Cascades Bank – Division of Glacier Bank

Northern Trust Bank

Northwest Bank

Olympia Federal Savings & Loan Assn.

Opus Bank

Riverview Community Bank

Seattle Bank

Skagit Bank

Sunwest Bank

Timberland Bank

Umpqua Bank

Washington Federal

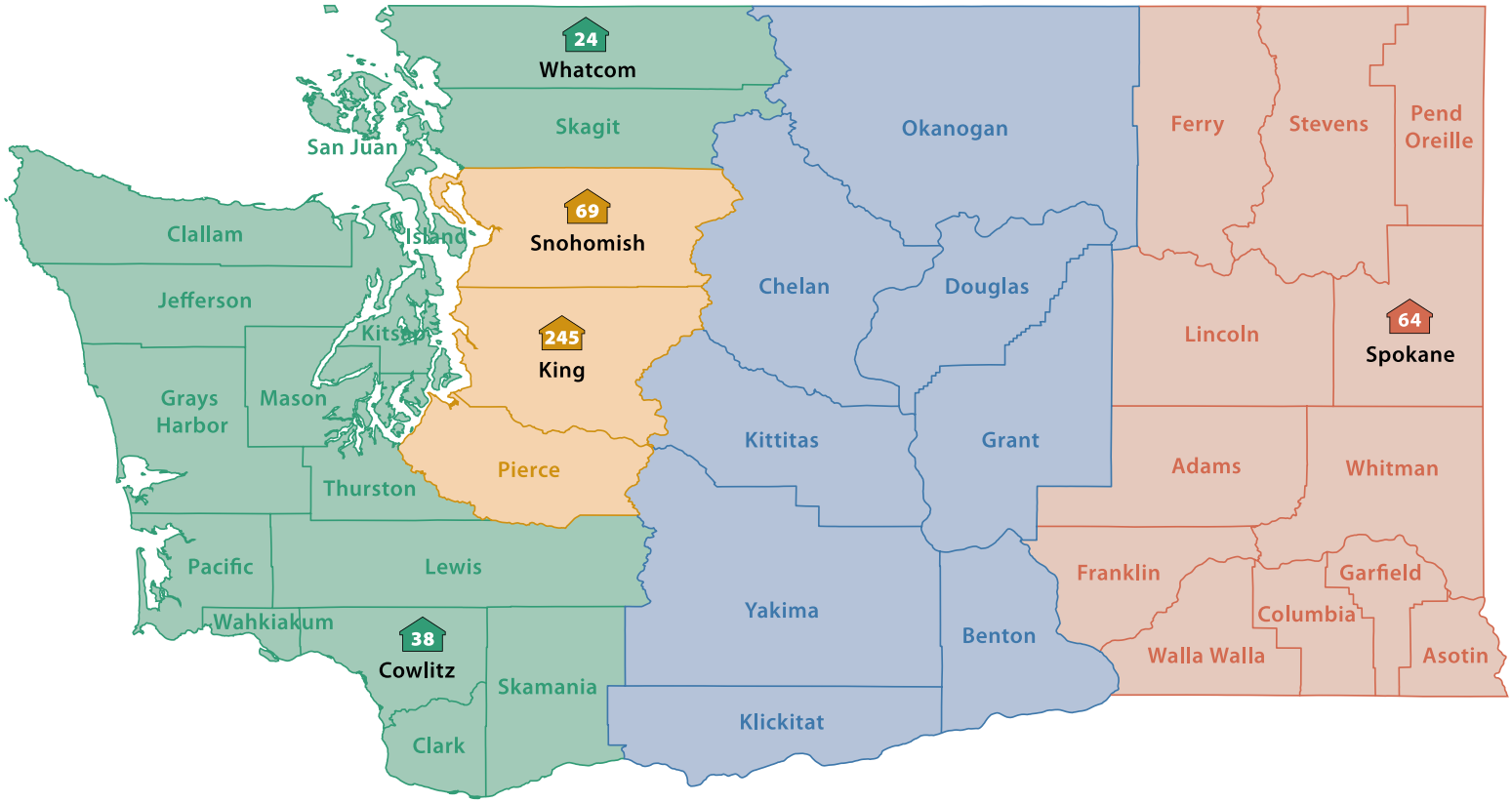
Washington Trust Bank

Wells Fargo Bank

Yakima Federal Savings & Loan Assn.

FY2015 APPROVED AND FUNDED LOAN ACTIVITY

Number of Approved and Funded Units by County, FY 2015

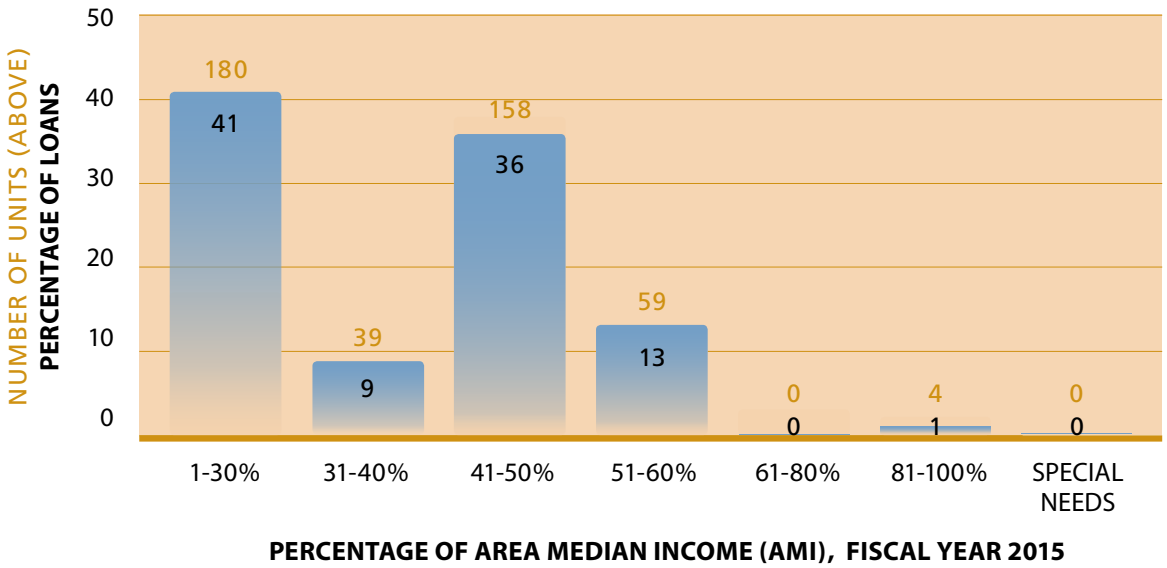


UNIT TOTALS BY REGION

Western Region	Metro Region	Central Region	Eastern Region
62	314	0	64

FY2015 APPROVED AND FUNDED LOAN ACTIVITY

FY 2015 Loans by Income Served, % of AMI



FY 2015 Funded and Approved Loans

	AMOUNT	NUMBER OF UNITS	SQ. FT. ECONOMIC DEVELOPMENT
FUNDED LOANS	$ 10,739,434	328	20,732
APPROVED LOANS	$ 9,025,000	181	31,382

Mt. Baker light rail station

REPORT OF INDEPENDENT AUDITORS AND CONSOLIDATED FINANCIAL STATEMENTS FOR WASHINGTON COMMUNITY REINVESTMENT ASSOCIATION AND SUBSIDIARY SEPTEMBER 30, 2015 AND 2014

To the Board of Directors
Washington Community Reinvestment Association and Subsidiary

Report on Financial Statements

We have audited the accompanying consolidated financial statements of Washington Community Reinvestment Association and Subsidiary (the Association), which comprise the consolidated statements of financial condition as of September 30, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Washington Community Reinvestment Association and Subsidiary as of September 30, 2015 and 2014, and the results of their activities and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Everett, Washington
November 17, 2015

WASHINGTON COMMUNITY REINVESTMENT ASSOCIATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	September 30,	
ASSETS	**2015**	**2014**
CASH AND CASH EQUIVALENTS	$ 1,423,008	$ 1,223,068
RESTRICTED CASH	–	4,000
INTEREST-BEARING DEPOSITS	1,663,707	1,453,391
INTEREST RECEIVABLE	482,590	511,519
ACCOUNTS RECEIVABLE AND PREPAID EXPENSES	86,303	88,732
LOANS HELD FOR INVESTMENT - MEMBER INSTITUTIONS, net	85,194,180	86,377,292
LOANS HELD FOR INVESTMENT - WSHFC, net	5,580,095	6,476,397
LOANS HELD FOR INVESTMENT - RESERVE, net	115,747	123,998
REAL ESTATE OWNED	–	189,000
EQUIPMENT, net	8,406	4,879
Total assets	$ 94,554,036	$ 96,452,276
LIABILITIES AND UNRESTRICTED NET ASSETS		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 258,802	$ 271,337
INTEREST PAYABLE	409,139	441,235
DEFERRED RENT PAYABLE	11,552	15,326
DEFERRED REVENUE	784	4,000
PAYABLE TO WSHFC	–	189,000
LOANS PAYABLE - WSHFC	5,524,505	6,416,654
NOTES PAYABLE - MEMBER INSTITUTIONS	84,936,366	86,094,430
Total liabilities	91,141,148	93,431,982
UNRESTRICTED NET ASSETS	3,412,888	3,020,294
Total	$ 94,554,036	$ 96,452,276

See accompanying notes.

WASHINGTON COMMUNITY REINVESTMENT ASSOCIATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES

	Years Ended September 30,	
REVENUES	**2015**	**2014**
Interest income	$ 6,022,706	$ 6,022,750
Loan fees	255,322	91,977
Construction loan review revenue	219,544	280,109
Contributions from member institutions	5,000	5,000
Other contributions	3,216	3,959
Total revenues	6,505,788	6,403,795
EXPENSES		
Interest expense	4,807,617	4,830,083
Salaries and related expenses	699,893	699,865
Professional fees	270,716	327,696
Office expenses	114,846	108,346
Other expenses	203,622	189,662
Contributions and grants	16,500	16,500
Total expenses	6,113,194	6,172,152
CHANGE IN UNRESTRICTED NET ASSETS	392,594	231,643
Unrestricted net assets, beginning of year	3,020,294	2,788,651
Unrestricted net assets, end of year	$ 3,412,888	$ 3,020,294

See accompanying notes.

WASHINGTON COMMUNITY REINVESTMENT ASSOCIATION AND SUBSIDIARY CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended September 30,	
	2015	**2014**
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from		
Loan fees	$ 107,769	$ 105,322
Other fees	65,428	39,270
Interest	6,051,633	6,006,764
Construction loan review revenue	225,386	306,018
Contributions for member institutions	5,000	5,000
Other contribution	–	4,000
	6,455,216	6,466,374
Cash paid to		
Employees	(761,437)	(730,076)
Vendors	(581,331)	(645,980)
Prepayment fees	(23,610)	(2,590)
Interest	(4,839,711)	(4,815,667)
	(6,206,089)	(6,194,313)
Net cash from operating activities	249,127	272,061
CASH FLOWS FROM INVESTING ACTIVITIES		
Origination of loans held for investment	(10,739,434)	(6,544,000)
Loan principal collected on loans held for investment from member institutions and WSHFC	13,125,848	2,110,693
Purchase of equipment	(8,907)	(1,882)
Purchase of interest-bearing deposits	(1,307,920)	(794,307)
Maturity of interest-bearing deposits	1,097,604	729,484
Net cash from investing activities	2,167,191	(4,500,012)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable from member institutions and WSHFC related to loans held for investment	10,739,434	6,544,000
Principal repayments on notes payable from member institutions and loans payable to WSHFC related to loans held for investment	(12,959,812)	(2,424,184)
Net cash from financing activities	(2,220,378)	4,119,816
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	195,940	(108,135)

See accompanying notes.

	Years Ended September 30,	
	2015	**2014**
CASH AND CASH EQUIVALENTS		
Beginning of year	1,227,068	1,335,203
End of year	$ 1,423,008	$ 1,227,068
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION		
Cash and cash equivalents	$ 1,423,008	$ 1,223,068
Restricted cash	–	4,000
Consolidated cash	$ 1,423,008	$ 1,227,068
RECONCILIATION OF CHANGE IN UNRESTRICTED NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in unrestricted net assets	$ 392,594	$ 231,643
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities		
Depreciation	5,380	6,253
Loss on disposal of equipment	–	930
Change in operating assets and liabilities		
Interest receivable	28,929	(15,986)
Accounts receivable and prepaid expenses	2,429	(21,701)
Deferred loan fees	(128,584)	6,076
Accounts payable, accrued liabilities, and deferred revenue	(15,751)	53,355
Interest payable	(32,096)	14,416
Deferred rent payable	(3,774)	(2,925)
NET CASH FROM OPERATING ACTIVITIES	$ 249,127	$ 272,061
NONCASH TRANSACTIONS		
Write-down of real estate owned	$ –	$ 93,381
Reduction of payable to WSHFC	$ 18,835	$ 93,381
Reduction in real estate owned from disposition	$ 18,835	$ –
Transfer of member institution loans to reserve loans	$ –	$ 131,019

See accompanying notes.

WASHINGTON COMMUNITY REINVESTMENT ASSOCIATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Organization and Principles of Consolidation

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

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

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

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

Beginning October 25, 2012, the Association entered into contracts with the National Equity Fund (NEF), a tax credit investor. The purpose for these contracts is to provide construction oversight and funds disbursement. NEF is a national syndicator of low income housing tax credits used to revitalize communities and create economic opportunities. Currently there are no new contracts outstanding with the NEF.

Effective February 7, 2003, the Association entered into an agreement (the WSHFC Agreement) for a revolving line of credit from the Washington State Housing Finance Commission (the Commission or WSHFC) of up to $7,500,000 for the purpose of making loans to serve nonprofit organizations whose needs for small loan amounts make conventional financing or financing through bonds too costly and inefficient. In the event of default of loans made by the Association with funds borrowed under this revolving line of credit, the Commission, at its sole option, retains the right of assignment, without recourse or warranty, of the loans made in full satisfaction of the amounts borrowed under the line of credit. If such assignment option is not exercised, the Association is not required to repay funds borrowed under this revolving line of credit. WSHFC loans are included in loans held for investment in the consolidated statements of financial condition.

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

Note 2 - Summary of Significant Accounting Policies

The consolidated financial statements of the Association have been prepared on the accrual basis. Under accounting principles generally accepted in the United States of America, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. All net assets of the Association are classified as unrestricted. The significant accounting policies followed are described below.

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

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

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

Loans held for sale - Loans originated and held for sale are carried at the lower of cost or fair value on an aggregate basis. Net unrealized losses, if any, are recognized through a valuation

Note 2 - Summary of Significant Accounting Policies (continued)

allowance by a charge to income. Nonrefundable fees and direct loan origination costs related to loans held for sale are deferred and recognized as part of the gain on sale when the loans are sold or paid off. There were no loans held for sale at September 30, 2015 and 2014.

Transfers of financial assets - Transfers of an entire financial asset, a group of financial assets, or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Association, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Association does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. No financial assets were transferred during the years ended September 30, 2015 or 2014.

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

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

Loans held for investment - WCRA Reserve - Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at the principal amount outstanding. Interest is accrued primarily on a simple interest basis on the outstanding principal balance of the loan. Loans held for investment - WCRA Reserve consist of direct revolving loans for nonprofit projects originated under the WCRA Reserve and Investment Policy, established by the WCRA board of directors in an aggregate amount not to exceed $400,000.

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

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

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

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

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

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

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

Rate lock commitments on loans and notes payable - The Association enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). Rate lock commitments on loans that are intended to be sold are considered to be derivatives. The Association's cost of borrowing to fund the originated loans held for sale is based on the interest rate of such loans. The commitments to the Association to borrow from member institutions related to the loans held for sale are also derivatives. These

Note 2 - Summary of Significant Accounting Policies (continued)

derivatives are recorded at fair value, with the change in fair value recorded in earnings. Fair value is based on fees currently charged to enter into similar agreements and, for fixed-rate commitments, also considers the difference between current levels of interest rates and the committed rates. These commitments do not expose the Association to interest rate risk because the associated risk is borne by the member institutions. At September 30, 2015 and 2014, there were no rate lock commitments on loans that are intended to be held for sale.

Real estate owned - Properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. After foreclosure, management periodically performs valuations, and the real estate is carried at the lower of carrying amount or fair value less cost to sell. Any subsequent write-downs are recorded as a decrease in the asset and charged against operating expenses. For real estate owned acquired under the terms of the WSHFC Agreement, any subsequent write-downs are recorded as a decrease in the asset and would be offset by a reduction in the liability in the loans payable to WSHFC.

Escrow - Customer funds held for construction draws and operating replacement and completion reserves are not recorded on the books of the Association, because such accounts are held by another institution for the benefit of borrowers or National Equity Fund. At September 30, 2015 and 2014, the amount of funds held for customers in escrow was $11,375,776 and $10,870,323, respectively.

Contributions received - Contributions received from institutions for membership in the Association and all other contributions are recorded in the consolidated statements of activities. Any restricted contributions received and spent in the same year are treated as unrestricted contributions. Restricted cash was $0 and $4,000 at September 30, 2015 and 2014, respectively.

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

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

Tax status - On June 17, 1996, the Association received an Internal Revenue Service determination letter reaffirming the Association's status as a publicly supported organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Association adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740-10, *Income Taxes*, relating to accounting for uncertain tax positions on October 1, 2010, which had no financial statement impact to the Association. The Association recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Association recognizes interest and penalties related to income tax matters in noninterest expense. The Association had no unrecognized tax benefits that would require an adjustment to the October 1, 2010, beginning balance of net assets and had no unrecognized tax benefits at September 30, 2015 or 2014. The Association files an exempt organization return in the U.S. federal jurisdiction.

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

Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. At September 30, 2015 and 2014, there were no assets or liabilities measured at fair value on a recurring basis. At September 30, 2014, the real estate owned in the consolidated statements of financial condition is measured at fair value on a nonrecurring basis. Generally, nonrecurring valuation is the result of the application of other accounting pronouncements that require assets or liabilities to be assessed for impairment or recorded at the lower of cost or fair value.

Subsequent events - Subsequent events are events or transactions that occur after the consolidated statement of financial condition date but before the consolidated financial

Note 2 - Summary of Significant Accounting Policies (continued)

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

The Association has evaluated subsequent events through November 17, 2015, which is the date the consolidated financial statements are available to be issued, and no subsequent events occurred requiring accrual or disclosure.

Note 3 - Equipment

A summary of equipment at September 30 is as follows:

	2015	2014
Equipment	$ 71,645	$ 70,072
Less accumulated depreciation	(63,239)	(65,193)
	$ 8,406	$ 4,879

Depreciation expense for the years ended September 30, 2015 and 2014, was $5,380 and $6,253, respectively.

Note 4 - Loans Held for Investment

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

	2015	2014
Real estate		
Non-tax-credit loans	$ 33,956,810	$ 30,447,836
Tax-credit loans	52,264,748	57,087,635
Total member institution loans	86,221,558	87,535,471
Reserve loans	115,747	123,998
WSHFC loans	5,571,200	6,465,285
Total real estate	91,908,505	94,124,754
Less		
Allowance for loan losses	(379,110)	(379,110)
Deferred loan fees	(639,373)	(767,957)
	$ 90,890,022	$ 92,977,687

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

	Real Estate			
	Non-Tax-Credit	Tax-Credit	Unallocated	2015
Allowance for loan losses, beginning of year	$ 173,259	$ 152,795	$ 53,056	$ 379,110
Provision (benefit) for loan losses	15,342	(12,121)	(3,221)	–
Allowance for loan losses, end of year	$ 188,601	$ 140,674	$ 49,835	$ 379,110

	Real Estate			
	Non-Tax-Credit	Tax-Credit	Unallocated	2014
Allowance for loan losses, beginning of year	$ 149,747	$ 152,367	$ 76,996	$ 379,110
Provision (benefit) for loan losses	23,512	428	(23,940)	-
Allowance for loan losses, end of year	$ 173,259	$ 152,795	$ 53,056	$ 379,110

No loans were sold during the years ended September 30, 2015 or 2014.

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

During the year ended September 30, 2010, the Association, in lieu of foreclosure, accepted a deed on real estate collateral of a WSHFC loan. At September 30, 2014, the asset is in the line item titled real estate owned and the liability is in the line item titled payable to WSHFC, respectively, in the consolidated statements of financial condition. During the year ended September 30, 2015, the Association sold the property for net proceeds of $170,165. Upon receipt, the proceeds were remitted to WSHFC in full satisfaction of the loan payable to WSHFC. No gains or losses were recorded on the transaction.

Note 4 - Loans Held for Investment (continued)

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

When the Association classifies problem loans as either substandard or doubtful, it may establish a specific allowance to address the risk specifically or the Association may allow the loss to be addressed in the general allowance. General allowances represent loss allowances that have been established to recognize the inherent risk associated with lending activities, but that, unlike specific allowances, have not been specifically allocated to particular problem assets. Assets that do not currently expose the Association to sufficient risk to warrant classification as substandard or doubtful but possess identified weaknesses are designated as either watch or special mention assets. At September 30, 2015 and 2014, the Association had no loans classified as doubtful or substandard.

The following tables represent the internally assigned grade as of September 30, 2015 and 2014, by type of loans:

Credit Risk Profile by Internally Assigned Grade

September 30, 2015	Real Estate		
	Non-Tax-Credit	Tax-Credit	Total
Member institution loans			
Grade			
Pass	$ 33,551,507	$ 50,929,820	$ 84,481,327
Watch	–	1,334,928	1,334,928
Special mention	405,303	–	405,303
	33,956,810	52,264,748	86,221,558
Reserve loans			
Grade			
Pass	56,375	–	56,375
Watch	59,372	–	59,372
	115,747	–	115,747
WSHFC loans [1]			
Grade			
Pass	4,973,515	–	4,973,515
Watch	388,669	–	388,669
Special mention	209,016	–	209,016
	5,571,200	–	5,571,200
	$ 39,643,757	$ 52,264,748	$ 91,908,505

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

September 30, 2014	Real Estate		
	Non-Tax-Credit	Tax-Credit	Total
Member institution loans			
Grade			
Pass	$ 29,946,860	$ 55,744,181	$ 85,691,041
Watch	85,767	1,343,454	1,429,221
Special mention	415,209	-	415,209
	30,447,836	57,087,635	87,535,471
Reserve loans			
Grade			
Pass	123,998	-	123,998
WSHFC loans [1]			
Grade			
Pass	5,928,732	-	5,928,732
Watch	536,553	-	536,553
	6,465,285	-	6,465,285
	$ 37,037,119	$ 57,087,635	$ 94,124,754

Note 4 - Loans Held for Investment (continued)

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

There were no impaired, troubled debt restructurings, or nonaccrual loans at September 30, 2015 and 2014.

There were no loans past due more than 90 days and still accruing interest at September 30, 2015 and 2014.

There were no loans past due 30 to 90 days at September 30, 2015 and 2014.

Note 5 - Notes Payable - Member Institutions

Funding for loans originated by the Association has been provided by member institutions under a revolving line of credit as specified in the Agreement for Pool 1. During the 2014 fiscal year, the Agreement was amended. As of September 30, 2015 and 2014, the maximum limit on the line of credit was $99,575,000 and $95,575,000, respectively. The outstanding amounts were $63,505,205 (of which $58,676,770 was revolving and $4,828,435 was nonrevolving) and $62,776,396 (of which $56,936,531 was revolving and $5,839,865 was nonrevolving) as of September 30, 2015 and 2014, respectively, and $6,715,000 was approved to be funded for loan commitments (Note 8) as of September 30, 2015. As stated in the Agreement, the terms of the Association's borrowings from member institutions are substantially the same as the terms of the loans the Association will originate. The member institutions receive an assignment of collateral of the specific loans equal to their respective equity percentage interest in each specific note payable. A nominal interest rate spread is retained by the Association to cover operating expenses.

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

Effective September 15, 1997, the Association entered into a revolving line of credit, as specified in the Agreement for Pool 2, from certain member institutions to provide additional funds for new loans and loan commitments to maintain lending capacity. As of September 30, 2015 and 2014, the maximum limit on the line of credit was $26,512,000. The outstanding amounts were $19,575,961 (of which $17,020,654 was revolving and $2,555,307 was nonrevolving) and $21,103,379 (of which $17,782,899 was revolving and $3,320,480 was nonrevolving) as of September 30, 2015 and 2014, respectively, and $800,000 was approved to be funded for loan commitments (Note 8) on the line of credit as of September 30, 2015. Similar to the revolving line of credit above, the member institutions receive an assignment of collateral of the specific loans equal to their respective equity percentage interest in each specific note payable. The interest rate on notes payable to member institutions for the revolving line of credit is a minimum of 1% over the applicable rate on U.S. government securities having a term consistent with the term of the underlying note payable. A nominal interest rate spread is retained by the Association to cover operating expenses.

Effective May 15, 2001, the Association entered into a line of credit, as specified in the Agreement for Pool 3, from certain member institutions for the purpose of economic development lending. Effective May 1, 2010, this agreement was amended. As of September 30, 2015 and 2014, the maximum limit on the line of credit was $6,500,000. Of these amounts, $0 and $160,000 were nonrevolving as of September 30, 2015 and 2014, respectively. As of September 30, 2015 and 2014, the outstanding amounts were $1,855,200 and $2,214,655, respectively, and $2,825,000 was approved to be funded for loan commitments (Note 8) on the line of credit as of September 30, 2015. Of these outstanding balances, no amounts were nonrevolving as of September 30, 2015 and 2014. Similar to the revolving lines of credit above, the member institutions receive an assignment of collateral of the specific loans equal to their respective equity percentage interest in each specific note payable. The interest rate on notes payable to member institutions for the revolving line of credit is a minimum of 1.50% over the applicable rate on U.S. government securities having a term consistent with the term of the underlying note payable. A nominal interest rate spread is retained by the Association to cover operating expenses.

Future minimum payments of notes payable - member institutions are as follows:

2016	$ 1,868,669
2017	2,443,648
2018	2,480,519
2019	2,095,964
2020	3,169,458
Thereafter	72,878,108
	$ 84,936,366

Notes payable - member institutions, at September 30, 2015, bear interest at rates ranging from 3.15% to 7.33%. The notes are payable in monthly installments, including principal and interest.

Note 6 - Loans Payable - WSHFC

Funding for loans originated by the Association has been provided by the Commission under a revolving line of credit as specified in the WSHFC Agreement. The maximum limit on the line of credit is $7,500,000. As of September 30, 2015 and 2014, the outstanding amounts were $5,524,505 and $6,416,654, respectively, and there were no loan commitments (Note 8) as of September 30, 2015. A nominal interest rate spread is retained by the Association to cover operating expenses. The interest rate on the loans charged by the Commission for the revolving line of credit is 2%, consistent with the terms of the WSHFC Agreement.

Future minimum payments of loans payable - WSHFC are as follows:

2016	$ 855,794
2017	910,721
2018	483,755
2019	982,677
2020	607,011
Thereafter	1,684,547
	$ 5,524,505

Note 7 - Contributions From Member Institutions

Contributions from member institutions were made by the Association's member institutions to cover initial operating expenses. Initial contributions from member institutions were determined to cover the first two years of operating expenses. The first installment was paid prior to September 30, 1992, and the second installment of approximately $57,000 was paid during 1993. In addition, members who join the Association subsequent to the original formation are assessed a one-time contribution. During the year ended September 30, 2015, there were two new member assessments collected and for the year ended September 30, 2014, there was one new member assessment collected.

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

Note 8 - Commitments

The principal balance related to loan commitments to borrowers and member institutions at September 30, 2015, was $10,340,000, all of which was related to affordable housing projects and economic development projects. Commitments to extend credit generally have fixed expiration dates. Because a portion of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Prior to extending commitments, the Association evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the borrower. Loans are collateralized by real property or other security located within the state of Washington.

Contractual future minimum rental payments for the Association's office lease as of September 30, 2015, are as follows:

2016	$ 81,364
2017	20,250
	$ 101,614

Rental expense for the years ended September 30, 2015 and 2014, was $78,224 and $78,499, respectively, and is included in office expenses on the consolidated statements of activities.

The Association's office lease expires in January 2017.

Contractual future minimum rental payments for the Association's copier lease as of September 30, 2015, are as follows:

2016	$ 2,523
2017	2,523
2018	2,523
2019	2,523
	$ 10,092

Note 9 - Related Party Transactions

All cash and cash equivalents of the Association are on deposit with member institutions. The Association holds interest-bearing deposits with member institutions. Total related party interest-bearing deposits at September 30, 2015 and 2014, were $1,663,146 and $1,452,830, respectively.

Note 9 - Related Party Transactions (continued)

Another member bank is acting as funding agent for member bank loans and is paid a monthly servicing fee of one eighth of 1% of the outstanding principal balance. Total funding agent fees for the years ended September 30, 2015 and 2014, were $106,447 and $105,048, respectively.

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

There were no loans sold during the year ended September 30, 2015 or 2014.

Note 10 - Employee Savings Plan

The Association has a voluntary contribution 403(b) savings plan for all employees. For the years ended September 30, 2015 and 2014, no contributions were made by the Association to the plan.

The Association has an employer-funded 408(k) simplified employee pension plan for all eligible employees. The Association may make a contribution of up to 15% of each employee's total compensation, within certain limits. At September 30, 2015 and 2014, the Association accrued contribution expenses of $33,039 and $41,278, respectively. These amounts are generally paid out in the following fiscal year subject to board approval.

Note 11 - Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets and liabilities carried on the consolidated statements of financial condition by caption and by level within the valuation hierarchy (as described above) for which a nonrecurring change in fair value has been recorded. There were no nonrecurring fair value measurements as of September 30, 2015:

2014	Level 1	Level 2	Level 3	Total
Other real estate owned	$ –	$ –	$ 189,000	$ 189,000

Other real estate owned - The fair value of other real estate owned is generally based on third-party appraisals of the property.

Quantitative information about Level 3 fair value measurements - There were no Level 3 nonrecurring fair value measurements as of September 30, 2015. The range and weighted average of the significant unobservable inputs used to fair value Level 3 nonrecurring assets as of September 30, 2014, along with the valuation techniques used, are shown in the following table:

	Fair Value at September 30, 2014	Valuation Technique	Unobservable Input	Range (Weighted Average)[1]
OREO	$ 189,000	Various	Adjustment to valuation	0%-10% (10%)

1 Discount to appraisal value.

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