

**Olympia Mortgage Fund, LLC**

(A California Limited Liability Company)

Financial Statements - Modified Cash Basis

December 31, 2014



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## INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Members  
Olympia Mortgage Fund, LLC  
Grass Valley, California

We have reviewed the accompanying balance sheet - modified cash basis of Olympia Mortgage Fund, LLC (the "Fund") (a California limited liability company), as of December 31, 2014, and the related statements of operations and changes in members' equity - modified cash basis, and cash flows - modified cash basis for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Fund management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the modified cash basis of accounting.

*Armanino LLP*  
Armanino<sup>LLP</sup>  
San Ramon, California

February 26, 2015

OLYMPIA MORTGAGE FUND, LLC  
(A California Limited Liability Company)  
Balance Sheet - Modified Cash Basis  
December 31, 2014  
(See Independent Accountant's Review Report)

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ASSETS

Cash and cash equivalents	\$ 659,828
Investment in Foothill Mortgage Fund of Olympia, LLC	205,000
Investment in limited liability company	900,000
Advances on mortgage loans receivable	70,480
Mortgage loans receivable	<u>10,017,622</u>
	<u>11,852,930</u>
Real estate owned	
Real estate held	10,324,985
Real estate held for use	<u>5,439,571</u>
Real estate owned	<u>15,764,556</u>
Total assets	<u><u>\$ 27,617,486</u></u>

LIABILITIES AND MEMBERS' EQUITY

Liabilities	
Lease deposits	\$ 6,044
Members' equity	<u>27,611,442</u>
Total liabilities and members' equity	<u><u>\$ 27,617,486</u></u>

The accompanying notes are an integral part of these financial statements.

OLYMPIA MORTGAGE FUND, LLC  
 (A California Limited Liability Company)  
 Statement of Operations and Changes in Members' Equity - Modified Cash Basis  
 For the Year Ended December 31, 2014  
 (See Independent Accountant's Review Report)

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Revenues	
Mortgage interest income	\$ 412,632
Rental income	294,318
Earnings from Foothill Mortgage Fund of Olympia, LLC	49,500
Late fees and other income	1,736
Total revenues	<u>758,186</u>
Operating expenses	
Loan servicing fees	58,585
Asset management fees	294,953
Real estate owned holding costs	356,991
Loan writeoff expense	227,631
Other operating expenses	36,099
Total operating expenses	<u>974,259</u>
Other income	
Net loss on sales of assets	<u>(107,969)</u>
Net loss - modified cash basis	(324,042)
Members' equity, beginning of year	30,797,819
Members' equity distributions	(37,335)
Members' capital withdrawals	<u>(2,825,000)</u>
Members' equity, end of year	<u>\$ 27,611,442</u>

The accompanying notes are an integral part of these financial statements.

OLYMPIA MORTGAGE FUND, LLC  
(A California Limited Liability Company)  
Statement of Cash Flows - Modified Cash Basis  
For the Year Ended December 31, 2014  
(See Independent Accountant's Review Report)

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Cash flows from operating activities	
Net loss - modified cash basis	\$ (324,042)
Adjustments to reconcile net loss - modified cash basis to net cash provided by operating activities	
Net loss on sales of assets	107,969
Write off of loans	227,631
Depreciation	162,969
Changes in operating assets and liabilities	
Advances on mortgage loans receivable	(167,215)
Lease deposits	(5,699)
Net cash provided by operating activities	<u>1,613</u>
 Cash flows from investing activities	
Principal collected on loans	859,975
Return of capital from Foothill Mortgage Fund of Olympia, LLC	786,000
Proceeds from sales of real estate owned	1,472,007
Capital improvements on real estate owned	(14,742)
Net cash provided by investing activities	<u>3,103,240</u>
 Cash flows from financing activities	
Members' equity distributions	(37,335)
Members' capital withdrawals	(2,825,000)
Net cash used in financing activities	<u>(2,862,335)</u>
 Net change in cash and cash equivalents	242,518
Cash and cash equivalents at beginning of year	<u>417,310</u>
 Cash and cash equivalents at end of year	<u>\$ 659,828</u>
 <u>Non-cash investing activities</u>	
Mortgage loans receivable converted to real estate owned	\$ 323,415
Advances transferred to real estate owned	\$ 174,051
Sale of real estate owned financed with mortgage loan receivable	\$ 34,000

The accompanying notes are an integral part of these financial statements.

OLYMPIA MORTGAGE FUND, LLC  
(A California Limited Liability Company)  
Notes to Financial Statements - Modified Cash Basis  
December 31, 2014

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1. Organization

Olympia Mortgage Fund, LLC (the "Fund") is a California limited liability company that was organized on November 21, 2002, and commenced operations on January 1, 2003. The Fund was organized for the purpose of making or investing in loans secured by deeds of trust encumbering California real estate, both commercial and residential. The Fund is managed by Olympia Mortgage and Investment Company, Inc., a California corporation (the "Manager" or "Servicer"). Fund loans are originated and serviced by the Manager. The Fund received certain operating and administrative services from the Manager, some of which are not reimbursed to the Manager. The Fund's financial position and results of operations would likely be different absent this relationship with the Manager.

2. Term of the Fund

On January 27, 2011, the members holding a majority of the outstanding membership interests with concurrence of the Manager resolved to dissolve and terminate the Fund. In accordance with Article IX section 9.02, "Winding Up," of the Fund's Operating Agreement dated November 20, 2002, the Manager is winding up the Fund's affairs as follows:

1. No new loans shall be made or purchased;
2. Effective the date of the vote for dissolution of the Fund, all withdrawal requests will automatically be terminated;
3. Manager will liquidate the Fund's assets as promptly as is consistent with recovering the fair market value thereof, either by sale to third parties or by servicing the Fund's outstanding loans in accordance with their terms; provided however, that the Manager shall liquidate all Fund assets for the best price reasonably obtainable in order to completely wind up the Fund's affairs within five years after the date of dissolution (the "liquidation period") unless the liquidation period is extended by a vote of a majority interest of the Fund's members;
4. All sums of cash received by the Fund during the winding up process from any source shall be applied and distributed to the members in proportion to the positive balances in their respective outstanding capital accounts, but only after all the Fund's debts have been paid or adequately provided for;
5. When available, all monthly income distributions will be distributed as cash to members. No member shall have the option to reinvest monthly earnings; and
6. Quarterly statements will be provided to Members which will reflect the amount of income and principal distributions and any corresponding reduction in each member's capital balance. In November 2014, the Manager adjusted member statements for losses which were incurred in the years 2011-2013, and on December 31, 2014 adjusted for the losses that were incurred for the year ended December 31, 2014 and provided year end statements to each Member which reflected the adjustments. The Manager intends to continue to adjust members statements for losses annually at each year end, and members' 4<sup>th</sup> quarter statements will reflect those loss adjustments;

OLYMPIA MORTGAGE FUND, LLC  
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2. Term of the Fund (continued)

7. Upon completion of the liquidation and distribution of proceeds, the Manager will file a certificate of dissolution and furnish each member with a statement showing the financial activity during the liquidation period;
8. The Fund will not obtain annual audits during liquidation; however, it will retain an accounting firm to review the annual financial statements during this period, as well as the final statement upon termination.

Certain changes were necessary in the accounting policies of the Fund during the liquidation period to facilitate the appropriate recognition of the liquidating transactions as well as the distribution of income and the return of capital to the members. Specifically, the Fund converted to the modified cash basis of accounting throughout the liquidation period and suspended analysis and recognition of impairment to the carrying amounts of mortgage loans receivable and real estate owned.

The Manager is required to sell assets for the best price reasonably obtainable to the extent necessary to liquidate all of the Fund's assets within the liquidation period. Consequently, as the end of the liquidation period approaches the Manager may be required to sell the Fund's assets for considerably less than their fair market value thereby reducing the return of the members' investment. In such a case, the Manager may propose an extension of the liquidation period. If the members approve one or more extensions of the liquidation period, the final distributions payable to the members upon dissolution may be delayed. There is no way to accurately determine if such delay will occur or how long beyond the initial five-year liquidation period such delay may be.

3. Summary of Significant Accounting Policies

Basis of accounting

In accordance with the provisions of the plan to wind up the affairs of the Fund as described in Note 2 above, during 2011, the Fund converted to a modified cash basis of accounting. Under the modified cash basis of accounting, all income including interest and fees received on loans and rental income is recognized upon receipt. Operating expenses are recognized when paid and future losses related to impairment of value for outstanding loans and real estate owned are recognized when realized. Because of its effects on tax reporting, the Fund has continued to depreciate its real estate owned properties using the straight line depreciation method. The modified cash basis of accounting differs significantly from generally accepted accounting principles, particularly in the recognition of declines in fair value of loans and real estate owned.



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3. Summary of Significant Accounting Policies (continued)

Cash and cash equivalents

The Fund considers all highly liquid financial instruments with remaining maturities of three months or less to be cash equivalents. Cash on deposit occasionally exceeds federally insured limits. The Fund believes that it mitigates this risk by maintaining deposits with major financial institutions.

Management estimates and related risks

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions about the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities, at the dates of the financial statements, as well as the reported amounts of revenues and expenses during the reported periods. Although they reflect management's best estimates, it is at least reasonably possible that a material change to these estimates could occur in the near term.

Mortgage loans receivable

Mortgage loans, which the Fund has the intent and ability to hold for the foreseeable future or to maturity, generally are stated at their outstanding unpaid principal balance. Mortgage loans receivable make up the only class of financing receivables within the Fund's lending portfolio. As a result, further segmentation of the loan portfolio is not considered necessary.

While foreclosure is the ultimate legal device by which the Fund recovers loan and related asset value, the Fund is making every attempt to work with its borrowers and to modify or reconstruct loans based on the borrower's current circumstances. Foreclosure action is used as a last resort.

Real estate owned

Real estate acquired through or in lieu of loan foreclosure is initially recorded at the lower of cost or fair value as of the date of foreclosure or acquisition. Costs of real estate improvements are capitalized, whereas costs relating to holding real estate are expensed. The portion of interest costs relating to development of real estate is capitalized.

Annual analysis and recognition of impairment costs to the carrying amount of real estate owned was suspended upon the conversion to the modified cash basis of accounting. Losses related to the declines in the fair value of real estate owned are recorded as a charge to operations when identified and are measured as the amount by which the carrying amount of a property exceeds its sales price less costs to sell.

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3. Summary of Significant Accounting Policies (continued)

Real estate owned (continued)

The building and improvements portion of real estate held and used is depreciated on a straight-line basis over the estimated useful life of the property once the asset is placed in service and is being used in operations. The estimated useful life of all of the Fund's real estate held and used at December 31, 2014 was 30 years. Accumulated depreciation on real estate held and used totaled \$773,379 at December 31, 2014.

The following schedule reflects the costs of real estate properties acquired through or in lieu of loan foreclosure and the recorded adjustments to estimated fair values, including estimated costs to sell when applicable, and other related activity as of and for the year ended December 31, 2014:

Beginning balance	\$17,029,293
Costs of real estate acquired	497,466
Capital improvements	14,742
Depreciation	(162,969)
Sales of real estate owned	<u>(1,613,976)</u>
Ending balance	<u>\$15,764,556</u>

Income taxes

The Fund is a limited liability company for federal and state income tax purposes. Under the laws pertaining to income taxation of limited liability companies, no federal income tax is paid by the Fund as an entity. Individual members report on their federal and state income tax returns their share of Fund income, gains, losses, deductions and credits, whether or not any actual distribution is made to such member during a taxable year. Accordingly, no provision for income taxes besides the \$800 minimum state franchise tax and the LLC gross receipts fees would be reflected in the accompanying financial statements.

The Fund has evaluated its current tax positions and has concluded that as of December 31, 2014, the Fund does not have any significant uncertain tax positions for which a reserve would be necessary.

4. Fund Provisions

The Fund is a California limited liability company. The rights, duties and powers of the members of the Fund are governed by the operating agreement and Chapter 3, Title 2.5 of the California Corporations Code. The following description of the Fund's operating agreement provides only general information. Members should refer to the Fund's operating agreement and offering circular for a more complete description of the provisions, as well as the Fund proposal which was approved by the members on January 27, 2011.

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4. Fund Provisions (continued)

The Manager is in complete control of the Fund business, subject to the voting rights of the members on specified matters. The Manager acting alone has the power and authority to act for and bind the Fund.

Members representing a majority of the outstanding Fund membership interests may approve or disapprove any of the following matters: (i) dissolution and termination of the Fund; (ii) amendment of the LLC operating agreement; (iii) merger or consolidation of the Fund with one or more other entities and; (iv) remove and replace the Manager.

Transferability

There is no public market for units of the Fund and none is expected to develop in the foreseeable future. There are substantial restrictions on transferability of membership interests. Any transferee must be a person or entity that would have been qualified to purchase a member unit in the offering and a transferee may not become a substituted member without the consent of the Manager.

5. Investment in Foothill Mortgage Fund

In conjunction with the vote to dissolve and terminate the Fund described in Note 2, the majority of the outstanding membership with concurrence of the Manager resolved to form a new fund, the Foothill Mortgage Fund of Olympia, LLC ("FMF"), and to contribute cash and selected loans to the new fund in exchange for a separate class of membership interest in the new fund. This investment in FMF is carried at the original cost of the assets contributed net of the principal amounts returned through distributions. The income distributed from this investment is recognized when received. All distributions of principal reduction payments received from FMF on the contributed loans are applied toward the redemption of the Fund's interest in FMF. As such, each contributed loan principal payment or payoff received by the Fund reduces its interest (and the Fund's corresponding capital account balance in FMF) on a dollar-for-dollar basis.

In the event a contributed loan goes into default, FMF is required to reassign the loan back to the Fund, thereby reducing the Fund's interest in FMF in an amount equal to the unpaid principal balance of that loan as of the date of transfer. As of December 31, 2014, no contributed loans were in default and no loans had been reassigned back to the Fund.

The following schedule reflects the costs of assets contributed to invest in the Foothill Mortgage Fund of Olympia, LLC and the principal amounts returned for the year ended December 31, 2014:

Beginning balance	\$991,000
Principal distribution received for loans paid off	<u>(786,000)</u>
Ending balance	<u>\$205,000</u>

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6. Investment in Limited Liability Company

As of December 31, 2014, the Fund maintained a membership interest of approximately 50% in a limited liability company (the "LLC") known as 6487 Main Avenue Partners, LLC. The LLC was created for the sole purpose of completing the real estate development project and sharing in the proceeds from the sale. The Fund contributed an assisted living development project valued at \$900,000 in exchange for its 50% ownership stake. Upon sale of the completed project the Fund shall receive \$900,000 from the initial proceeds of the sale. The remaining proceeds will be distributed to the other 50% owner of the LLC.

7. Related Party Transactions

Loan brokerage commissions

For its services in connection with Fund loans, the Servicer charges renewal fees and forbearance fees to the borrowers. These fees are paid directly by the borrowers and are not expenses of the Fund.

Loan servicing fees

Loan servicing fees of up to .0833% (1% annually) of the principal amount of each Fund loan are payable monthly to the Servicer as interest is earned by the Fund. Loan servicing fees of \$58,585 were paid during the year ended December 31, 2014.

Management fees

Monthly asset management fees of up to .0833% (1% annually) are payable monthly to the Manager on the last day of the month based on the net assets under management, as defined, on the first day of each month. Asset management fees of \$294,953 were paid during the year ended December 31, 2014.

Operating expenses

Pursuant to the operating agreement, the Fund shall be responsible for all accounting, auditing, tax preparation costs as well as LLC gross receipts fees and taxes. The operating agreement indicates that the Manager is responsible for all other expenses.

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8. Loan Concentrations and Characteristics

The loans are secured by recorded deeds of trust. At December 31, 2014, there were 27 loans outstanding with the following characteristics:

Number of secured loans outstanding	27
Total secured loans outstanding	\$10,017,622
Average secured loan outstanding	\$ 371,023
Average secured loan as percent of total	3.70%
Average secured loan as percent of members' equity	1.34%
Largest secured loan outstanding	\$ 1,780,000
Largest secured loan as percent of total	17.77%
Largest secured loan as percent of members' equity	6.45%
Number of secured loans in foreclosure	2
Approximate principal of secured loans in foreclosure	\$ 790,000
Number of secured loans over 90 days past maturity	14
Approximate principal of secured loans over 90 days past maturity	\$ 5,300,000

The Fund's loans are secured by recorded deeds of trust on real property located in various counties of California as follows:

<u>County</u>	<u>Loan Balances</u>	<u>Percentage</u>
Placer County	\$ 2,956,145	29.51%
El Dorado County	2,158,803	21.55%
Nevada County	1,706,985	17.04%
Monterey County	757,127	7.56%
Butte County	632,509	6.31%
Calaveras County	568,048	5.67%
Glenn County	403,000	4.02%
Lassen County	331,063	3.30%
Yuba County	284,854	2.84%
Fresno County	219,088	2.19%
Totals	<u>\$10,017,622</u>	<u>100.00%</u>

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8. Loan Concentrations and Characteristics (continued)

The following categories of secured loans were held at December 31, 2014:

First trust deeds	\$ 9,363,764
Second trust deeds	<u>653,858</u>
	<u>\$10,017,622</u>

Loans by type of security:

Single family	\$ 6,920,230
Construction/development	1,109,718
Commercial	975,993
Land	853,681
Mixed use	<u>158,000</u>
	<u>\$10,017,622</u>

Scheduled maturity dates of secured loans as of December 31, 2014 are as follows:

<u>Year Ending December 31,</u>	
2015	\$ 6,935,119
2016	2,635,447
2017	-
2018	331,063
2019	28,551
Thereafter	<u>87,442</u>
Total	<u>\$10,017,622</u>

The scheduled maturities for 2015 include 15 loans totaling approximately \$5,900,000, which are past maturity at December 31, 2014.

The Fund expects that mortgage loans may be either extended or repaid before contractual maturity dates, refinanced at maturity or go into default and not be repaid by the contractual maturity dates. Therefore, the above tabulation is not a forecast of future cash collections.

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9. Commitments and Contingencies

Legal proceedings

The Fund is involved in various legal actions arising in the normal course of business. In the opinion of management, such matters will not have a significant adverse effect on the results of operations or financial position of the Fund.

10. Subsequent Events

The Fund has evaluated subsequent events through February 26, 2015, the date the financial statements were available to be issued. No subsequent events have occurred that would have a material impact on the presentation of the Fund's financial statements.