HOUSING PARTNERSHIP NETWORK

AND AFFILIATES

COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

THE HOUSING PARTNERSHIP NETWORK, INC. AND AFFILIATES

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December 31, 2018 and 2017

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Independent Auditor's Report

To the Board of Directors of
The Housing Partnership Network, Inc. and Affiliates:

We have audited the accompanying combined financial statements of The Housing Partnership Network, Inc. and Affiliates (three Massachusetts corporations, not for profit), which comprise the combined statements of financial position as of December 31, 2018 and 2017, and the related combined statements of activities without donor restrictions, changes in net assets, cash flows and operating functional expenses for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of The Housing Partnership Network, Inc. and Affiliates as of December 31, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Alexander, Aronson, Finning & Co., P.C.

Boston, Massachusetts
May 2, 2019

THE HOUSING PARTNERSHIP NETWORK, INC. AND AFFILIATES

Combined Statements of Financial Position
December 31, 2018 and 2017

Assets	**2018**	**2017**
Current Assets:		
Cash and cash equivalents	$ 11,375,232	$ 8,567,959
Current portion of accounts and contracts receivable, net	4,127,147	2,195,212
Current portion of grants receivable	2,157,442	2,135,129
Current portion of loans receivable, net of allowance for loan loss	7,677,471	4,050,199
Interest receivable	249,787	77,109
Prepaid expenses and other	251,817	144,348
Total current assets	25,838,896	17,169,956
Restricted Deposits	621,576	468,107
Accounts and Contracts Receivable, net of current portion	397,590	525,088
Grants Receivable, net of current portion	-	1,000,000
Loans Receivable, net of current portion and allowance for loan loss	29,175,842	17,429,105
Investments in Uncombined Affiliates	9,455,496	7,403,981
Capitalized Costs	976,400	-
Property and Equipment, net	79,731	149,253
Total assets	$ 66,545,531	$ 44,145,490
Liabilities and Net Assets		
Current Liabilities:		
Grants payable to subrecipients	$ 1,283,842	$ 318,019
Current portion of loans payable	1,000,000	2,000,000
Accounts payable	628,180	281,018
Accrued expenses	1,357,581	1,300,300
Deferred income	187,687	12,685
Total current liabilities	4,457,290	3,912,022
Loan Escrows Liability	621,576	468,107
Loans Payable, net of current portion	30,891,991	13,692,727
Equity Equivalent Loans Payable	3,000,000	3,500,000
Total liabilities	38,970,857	21,572,856
Net Assets:		
Without donor restrictions:		
Operating	14,027,684	10,534,009
Affiliate investments	9,455,496	7,403,981
Total without donor restrictions	23,483,180	17,937,990
With donor restrictions	4,091,494	4,634,644
Total net assets	27,574,674	22,572,634
Total liabilities and net assets	$ 66,545,531	$ 44,145,490

THE HOUSING PARTNERSHIP NETWORK, INC. AND AFFILIATES

Combined Statements of Activities Without Donor Restrictions
For the Years Ended December 31, 2018 and 2017

	2018	2017
Operating Revenues:		
Earned income:		
Share of income of affiliates	$ 5,015,005	$ 3,703,408
Management fees	4,149,742	3,911,376
Program service fees	1,334,790	1,400,792
Membership fees	854,660	795,700
Contracts and other	594,813	1,064,469
Less - awards to subrecipients	(286,872)	(859,841)
Other revenue	144,513	410,341
Net earned income	11,806,651	10,426,245
Financial and related revenue (losses):		
Interest on loans, net	1,549,571	1,064,330
Loan fees	216,317	129,974
Investment income	36,782	15,204
Less - interest expense	(1,018,793)	(541,020)
Less - net loan loss recovery (provision)	(501,116)	303,788
Net financial and related revenue (losses)	282,761	972,276
Grants and contributions:		
Grants and contributions	1,560,998	1,899,942
In-kind services	82,041	96,287
Net assets released from purpose restrictions	4,031,591	1,618,234
Less - awards to subrecipients	(519,396)	(450,605)
Total grants and contributions	5,155,234	3,163,858
Net operating revenue	17,244,646	14,562,379
Operating Expenses:		
Program services	10,389,765	7,473,824
General and administrative	2,741,991	2,445,184
Fundraising and communication	251,166	323,246
Total operating expenses	13,382,922	10,242,254
Changes in net assets without donor restrictions from operations	3,861,724	4,320,125
Non-Operating Revenue (Expense):		
Loan loss recovery, net of grants to affiliate	1,625,956	-
Termination fee	-	600,000
Share of losses of affiliates	(142,490)	(294,616)
Net assets released from capital restrictions	200,000	125,000
Total non-operating revenue (expense)	1,683,466	430,384
Changes in net assets without donor restrictions	$ 5,545,190	$ 4,750,509

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

THE HOUSING PARTNERSHIP NETWORK, INC. AND AFFILIATES

Combined Statements of Changes in Net Assets
For the Years Ended December 31, 2018 and 2017

	2018	**2017**
Net Assets, beginning of year	$ 22,572,634	$ 15,365,359
Changes in net assets without donor restrictions	5,545,190	4,750,509
Changes in net assets with donor restrictions:		
Grants and contributions	2,688,441	4,075,000
Capital grants	1,000,000	125,000
Net assets released from restrictions	(4,231,591)	(1,743,234)
Total changes in net assets with donor restrictions	(543,150)	2,456,766
Changes in net assets	5,002,040	7,207,275
Net Assets, end of year	$ 27,574,674	$ 22,572,634

THE HOUSING PARTNERSHIP NETWORK, INC. AND AFFILIATES

Combined Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities:		
Changes in net assets	$ 5,002,040	$ 7,207,275
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	75,938	71,422
Loan fees	-	(16,539)
Provision for bad debt	(300,000)	-
Capital grants	(1,000,000)	(125,000)
Net loan loss recovery	(1,124,837)	(303,788)
Share of income of affiliates, net	(4,872,515)	(3,408,792)
Changes in operating assets and liabilities:		
Accounts and contracts receivable	(1,529,437)	(1,528,000)
Grants receivable	977,687	(2,271,337)
Interest receivable	(172,678)	(6,712)
Prepaid expenses and other	(107,469)	39,974
Grants payable to subrecipients	(232,575)	245,108
Accounts payable	347,162	51,990
Accrued expenses	57,281	190,505
Deferred income	175,002	(4,702)
Net cash provided by (used in) operating activities	(2,704,401)	141,404
Cash Flows from Investing Activities:		
Principal payments on loans receivable	7,547,760	2,905,556
Distributions from affiliates	3,550,000	1,425,048
Purchase of property and equipment	(6,416)	(21,821)
Cash investment in affiliates	(704,000)	(128,000)
Decrease in restricted deposits	-	88,889
Purchase of capitalized costs	(976,400)	-
Issuance of loans receivable	(24,920,976)	(9,052,096)
Net cash used in investing activities	(15,510,032)	(4,782,424)
Cash Flows from Financing Activities:		
Proceeds from loans payable	28,949,264	4,400,000
Capital grants	1,000,000	125,000
Principal payments on loans payable	(8,927,558)	-
Net cash provided by financing activities	21,021,706	4,525,000
Net Change in Cash and Cash Equivalents	2,807,273	(116,020)
Cash and Cash Equivalents:		
Beginning of year	8,567,959	8,683,979
End of year	$ 11,375,232	$ 8,567,959
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 835,083	$ 597,805
Supplemental Disclosure of Non-Cash Information:		
Accounts receivable converted to investment in affiliates	$ 25,000	$ -
Loan fees from issuance of loans receivable	$ -	$ 16,539

THE HOUSING PARTNERSHIP NETWORK, INC. AND AFFILIATES

Combined Statement of Operating Functional Expenses
For the Year Ended December 31, 2018
(With Summarized Comparative Totals for the Year Ended December 31, 2017)

	2018												2017
	Program Services								Support Services				
	Counseling and Education	Member Services	Capital Markets	Multifamily Operations	Single Family Operations	Platform Services	Research and Development	Total Program Services	General and Administrative	Fundraising and Communication	Total Support Services	Total	Total
Personnel and Related Costs:													
Salaries	$ 192,020	$ 889,416	$ 820,957	$ 479,083	$ 1,986,974	$ 210,598	$ 703,013	$ 5,282,061	$ 1,391,826	$ 176,141	$ 1,567,967	$ 6,850,028	$ 5,809,758
Fringe benefits	31,316	134,106	127,672	77,788	329,728	34,722	136,144	871,476	278,938	29,057	307,995	1,179,471	927,249
Payroll taxes	12,317	53,118	49,229	30,757	121,727	13,708	53,793	334,649	105,910	11,254	117,164	451,813	374,891
Total personnel and related costs	235,653	1,076,640	997,858	587,628	2,438,429	259,028	892,950	6,488,186	1,776,674	216,452	1,993,126	8,481,312	7,111,898
Other:													
Consulting and service contracts	495	104,414	192,838	88,881	42,105	162,500	622,674	1,213,907	214,900	-	214,900	1,428,807	809,876
Professional fees	3,846	15,212	267,092	18,034	97,951	2,569	236,100	640,804	273,359	2,189	275,548	916,352	454,363
Information technology - LaunchPad	-	-	-	-	-	-	703,659	703,659	-	-	-	703,659	-
Conferences and meetings	42,586	392,747	3,998	15,425	5,519	1,997	6,454	468,726	14,326	2,406	16,732	485,458	455,810
Occupancy	18,447	60,129	52,322	43,503	119,248	13,310	46,360	353,319	99,808	12,332	112,140	465,459	420,987
Travel	5,522	91,018	39,761	43,075	14,350	4,956	50,667	249,349	39,840	13,256	53,096	302,445	303,827
Office supplies and support	182	31,747	3,832	2,811	1,602	262	2,700	43,136	83,053	125	83,178	126,314	229,106
Staff development	-	-	-	-	182	-	40,831	41,013	75,455	-	75,455	116,468	64,568
Other	-	-	17,647	-	13,277	-	343	31,267	78,192	-	78,192	109,459	58,486
Depreciation	2,094	7,827	12,683	7,476	14,941	1,666	6,781	53,468	20,932	1,538	22,470	75,938	71,422
Communications	388	4,428	4,164	3,354	407	314	5,616	18,671	53,128	500	53,628	72,299	154,834
Insurance	774	2,832	23,436	2,671	5,579	639	27,467	63,398	5,578	594	6,172	69,570	69,587
Dues and publications	338	15,302	2,411	-	2,357	320	134	20,862	6,746	1,774	8,520	29,382	37,490
Total operating expenses before general and administrative allocation	310,325	1,802,296	1,618,042	812,858	2,755,947	447,561	2,642,736	10,389,765	2,741,991	251,166	2,993,157	13,382,922	10,242,254
General and Administrative Allocation	79,966	464,422	416,943	209,460	710,162	115,329	680,989	2,677,271	(2,741,991)	64,720	(2,677,271)	-	-
Total operating expenses	$ 390,291	$ 2,266,718	$ 2,034,985	$ 1,022,318	$ 3,466,109	$ 562,890	$ 3,323,725	$ 13,067,036	$ -	$ 315,886	$ 315,886	$ 13,382,922	$ 10,242,254

Combined Statement of Operating Functional Expenses
For the Year Ended December 31, 2017

	Program Services								Support Services			
	Counseling and Education	Member Services	Capital Markets	Multifamily Operations	Single Family Operations	Platform Services	Research and Development	Total Program Services	General and Administrative	Fundraising and Communication	Total Support Services	Total
Personnel and Related Costs:												
Salaries	$ 118,768	$ 898,045	$ 714,114	$ 449,991	$ 1,204,434	$ 231,726	$ 730,108	$ 4,347,186	$ 1,263,756	$ 198,816	$ 1,462,572	$ 5,809,758
Fringe benefits	18,971	159,896	113,505	77,639	190,620	37,209	96,511	694,351	200,951	31,947	232,898	927,249
Payroll taxes	7,718	64,505	45,939	31,355	77,046	15,038	38,987	280,588	81,411	12,892	94,303	374,891
Total personnel and related costs	145,457	1,122,446	873,558	558,985	1,472,100	283,973	865,606	5,322,125	1,546,118	243,655	1,789,773	7,111,898
Other:												
Consulting and service contracts	35,650	32,439	278,907	35,375	16,189	131,772	63,917	594,249	172,742	42,885	215,627	809,876
Professional fees	14,617	29,818	92,972	6,107	33,382	3,111	36,129	216,136	235,886	2,341	238,227	454,363
Conferences and meetings	47,814	278,878	10,238	25,646	20,332	1,482	42,480	426,870	27,098	1,842	28,940	455,810
Occupancy	8,887	59,095	42,228	66,160	80,947	13,313	83,774	354,404	53,794	12,789	66,583	420,987
Travel	6,710	74,770	25,197	49,441	26,105	8,748	34,139	225,110	64,718	13,999	78,717	303,827
Office supplies and support	1,479	19,999	7,285	1,868	462	22,079	2,169	55,341	173,025	740	173,765	229,106
Staff development	-	346	2,030	-	-	-	1,278	3,654	60,856	58	60,914	64,568
Other	-	82	3,003	-	8,320	-	639	12,044	46,442	-	46,442	58,486
Depreciation	1,345	9,374	6,769	12,161	13,341	2,117	13,339	58,446	10,934	2,042	12,976	71,422
Communications	943	4,026	3,730	1,721	96,529	674	2,769	110,392	43,585	857	44,442	154,834
Insurance	24,646	3,294	22,809	4,143	4,531	745	4,694	64,862	4,007	718	4,725	69,587
Dues and publications	-	26,860	2,500	-	-	612	219	30,191	5,979	1,320	7,299	37,490
Total operating expenses before general and administrative allocation	287,548	1,661,427	1,371,226	761,607	1,772,238	468,626	1,151,152	7,473,824	2,445,184	323,246	2,768,430	10,242,254
General and Administrative Allocation	90,176	521,028	430,020	238,842	555,780	146,962	361,005	2,343,813	(2,445,184)	101,371	(2,343,813)	-
Total operating expenses	$ 377,724	$ 2,182,455	$ 1,801,246	$ 1,000,449	$ 2,328,018	$ 615,588	$ 1,512,157	$ 9,817,637	$ -	$ 424,617	$ 424,617	$ 10,242,254

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

1. OPERATIONS AND NONPROFIT STATUS

The Housing Partnership Network, Inc. (HPN) is a Massachusetts not-for-profit corporation established in 1990, which serves as a peer network and business alliance for some of the nation's top-performing nonprofit housing developers, owners, lenders, and housing counselors. HPN helps these strong, accomplished organizations increase production and impact through a unique member-driven cooperative that shares knowledge and innovation, pools resources to access the capital markets more efficiently, and shapes policy that reflects and enhances their practice. HPN's mission is defined as follows:

> *"To build affordable homes, better futures, and vibrant communities for low and moderate-income people through partnerships with its member organizations and businesses, government, and philanthropic institutions."*

Combined Affiliates

The Housing Partnership Fund, Inc. (HPF) is a Massachusetts not-for-profit corporation, which was established in 1999 to provide financing to members of HPN for the purchase, rehabilitation and development of housing that is affordable to lower-income families. HPF is the lending affiliate of HPN. Both HPN and HPF have been granted status as Community Development Financial Institutions (CDFI) by the U.S. Department of the Treasury (the Treasury), each qualifying for certain awards and loan support from the Treasury.

Housing Partnership Ventures, Inc. (HPV) is a Massachusetts not-for-profit corporation, which was established in 2004 to support the members of HPN by developing and offering loan products and funding alternatives, including working capital loans, for existing business activities and funds to expand or originate new business lines. HPV is the investing affiliate of HPN. During 2009, HPV established a single-member limited liability company, HPV Holdings, LLC (HPV Holdings) to hold special assets. HPV Holdings has elected to be disregarded as a separate entity from HPV for tax purposes. HPV Holdings held no property at December 31, 2018 or 2017.

HPN appoints HPF's and HPV's Boards of Directors. HPN, HPF, and HPV (collectively, the Network) share some common directors. HPN performs all program and administrative functions of HPF and HPV under management contracts (see Note 8).

The combined financial statements include the three nonprofit organizations that comprise the Network. All significant intercompany balances and transactions have been eliminated from the accompanying combined financial statements.

The Network's program services consist of the following:

Counseling and Education

The Network's counseling and education work includes a community of practice and the creation of new businesses to help its members enhance their housing counseling work. Since 1995, HPN has been a pass-through intermediary of Federal Housing and Urban Development's (HUD) Housing Counseling and National Foreclosure Mitigation Counseling Program funds.

Member Services

The Network's member services focus on peer exchange opportunities including, but not limited to, two national member meetings per year, access to the International Housing Partnership, and financial and capital-related peer exchange through Strength Matters. Member services provide knowledge transfer and sharing of best practices in areas of common interest to our members.

1. OPERATIONS AND NONPROFIT STATUS (Continued)

Capital Markets

The Network's capital markets team raises grants, debt and equity to support the Network's general operating expenses, social enterprises, research and development, and policy innovation among other projects and functions, primarily from corporate investors and corporate and private foundations.

Multifamily Operations

Various member organizations of the Network develop and manage multifamily affordable housing properties. Through peer exchange, capital raise, and social enterprise development, the Network provides support for those members in areas including lending, purchasing, and resident services, among others.

Single Family Operations

The Network's single family programming focuses on creating and expanding access to financing for members' single family for-sale and rental programs, including facilitating the use of New Markets Tax Credits (NMTC) allocations (see Note 3) to expand homeownership opportunities in distressed markets.

Platform Services

The Network provides platform services to our business lines and in support of its emerging social enterprises including raising capital, marketing communications, finance, human resources, and information systems and technology. Services are contracted with individual social enterprises for a fee.

Research and Development

The Network's research and development, also known as the Innovation Lab, launches and builds social enterprises that increase members' capacities to fulfill their missions.

Non-Profit Status

HPN, HPF, and HPV are individually exempt from Federal income taxes as organizations formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC) and are also exempt from state income taxes. Donors may deduct contributions made to these entities within the requirements of the IRC.

2. SIGNIFICANT ACCOUNTING POLICIES

The Network's combined financial statements have been prepared in accordance with accounting standards and principles generally accepted in the United States of America (U.S. GAAP). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standard

In 2018, the Network adopted FASB's Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources and the lack of consistency in the type of information provided about expenses (see pages 13 and 16, and Note 11). The Network has adjusted the presentation of these combined financial statements accordingly. The adoption of this ASU did not impact the Network's net asset classes, results of operations, or cash flows for the years ended December 31, 2018 or 2017. This ASU has been applied retrospectively to all periods presented.

Estimates

The preparation of combined financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the combined financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents and Concentration of Credit Risk

For the purpose of the combined statements of cash flows, cash and cash equivalents consist of checking, money market, savings accounts, and certificates of deposit with initial maturities less than or equal to ninety days. Cash and cash equivalents do not include amounts recorded as restricted deposits (see Note 4).

The Network maintains its cash balances in high credit quality financial institutions. The Federal Deposit Insurance Corporation (FDIC) insures balances at each financial institution up to certain amounts. At certain times during the year, cash balances may exceed the insured amounts. The Network has not experienced any losses in such accounts. The Network periodically assesses the financial condition of these financial institutions and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

Allowance for Doubtful Accounts on Accounts, Contracts and Grants Receivable

An allowance for doubtful accounts is based on collection experience and other circumstances, which may affect the ability of payors and donors to meet their obligations. It is the Network's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. The Network established an allowance of $300,000 against certain accounts and contracts receivable as of December 31, 2018 (see Note 8). There was no allowance for doubtful accounts as of December 31, 2017.

Loans Receivable

Loans receivable are presented net of allowances for loan losses (see Note 5) and third party loan participations qualifying as note sales under ASC Topic, *Accounting for Transfers and Servicing of Assets and Liabilities*. Loan participations qualify as loan sales if the Network surrenders control over the participated portion of the loan receivable and the participation agreement meets certain other criteria. All of the Network's loan participations qualify for treatment as loan sales.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans Receivable (Continued)

U.S. GAAP requires nonprofit organizations to record interest expense and contribution revenue in connection with loans payable that are interest free or that have below-market interest rates. Likewise, funds loaned to borrowers at below-market interest rates should also result in imputed revenue and contribution expense. Interest rates on loans payable are disclosed in Note 6. Interest rates on loans receivable are disclosed in Note 5. The Network believes that the benefits derived from below-market rate loans received are passed through to the borrowers via below-market rate loans made, and that there is no material difference between community development finance market rates and the stated rates of loans in their portfolios. Consequently, no adjustments have been made to the accompanying combined financial statements to reflect rate differentials.

The Network considers a loan receivable as impaired when it is probable that interest and/or principal will not be collected according to the contractual terms of the loan receivable agreement. In accordance with guidance provided by ASC Topic, *Impairment (Recoverability) of a Loan*, management employs one of three methods to determine and measure impairment: the Present Value of Future Cash Flow Method; the Fair Value of Collateral Method; and the Observable Market Price of a Loan Method. To perform an impairment analysis, the Network reviews a loan's internally assigned risk rating, its outstanding balance, value of the collateral, guarantors, and a current report of the action being implemented. Based on the nature of the specific loan, one of the impairment methods is chosen and any impairment is determined, based on criteria established for impaired loans. There were no loans that were deemed to be impaired as of December 31, 2018 or 2017.

A troubled debt restructuring (TDR) occurs when a creditor, for economic or legal reasons related to a borrower's financial condition, grants a concession to the borrower that it would not otherwise consider, such as below market interest rates, extending the maturity of a loan, or a combination of both. The Network considers all loans modified in a TDR to be impaired. At the time a loan is modified in a TDR, the Network considers several factors in determining whether the loan should accrue interest, including:

- Cash flow necessary to pay the interest,
- Whether the customer is current on their interest payments, and
- Whether the borrower is expected to perform under the revised terms of the restructuring.

There have been no loan modifications classified as a TDR as of December 31, 2018 and 2017.

Loan Loss Allowance

The Network adopted the *Disclosure About the Credit Quality of Financing Receivables and the Allowance for Credit Losses* standard under U.S. GAAP. This standard requires disclosure about the accounting policies and methodology used to estimate the allowance for loan losses (see Note 5). Provisions are made for estimated loan losses based on management's evaluation of each loan. Loss recoveries are recorded in the year the recovery is known. The allowance for loan losses is established through the net loan loss provision and is charged to operating and non-operating activity based on the character of the underlying loans.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in Uncombined Affiliates

HPN and HPV maintain equity investments in uncombined affiliates where HPN and HPV exercise significant influence over the affiliates' operations (see Note 3). HPN and HPV account for these investments using the equity method. Whether or not HPN and HPV exercise significant influence with respect to an affiliate depends on an evaluation of several factors including, among others, representation on the affiliate's Board of Directors, significance of ownership in the voting securities of the affiliate, and participation in management activities significant to the investee. Under the equity method, the investment is initially recorded at cost and then increased or decreased by the share of income or loss of the affiliate. Distributions of cash reduce the carrying value of the investment. For investments in affiliates with stabilized operations and an expectation of current dividends, the Network records its share of income (loss) of affiliates as operating revenue in the accompanying combined statements of activities without donor restrictions. The Network records its share of income (loss) of affiliates in formation or start-up as part of non-operating revenue (expense).

All other closely held affiliate investments are recorded using the cost method. Under the cost method, an investment is carried at its original cost and cash distributions of profits are reported as income.

The Network periodically assesses the carrying balance of all investments in uncombined affiliates for possible impairment. No impairment losses for investments in affiliates were recognized in 2018 and 2017.

Capitalized Costs

Capitalized costs as of December 31, 2018, consist of database and website development costs related to the design and implementation of the LaunchPad database and Knowledge Center website that began in 2018. The LaunchPad database is under development and is expected to be used commercially within a new social enterprise developed by HPN. The total capitalizable costs expected to be incurred related to the LaunchPad database and Knowledge Center website are approximately $800,000 and $200,000, respectively, and these projects are expected to be placed in service during 2019. As of December 31, 2018, costs incurred that are deemed to be capitalizable related to the LaunchPad database and Knowledge Center website amounted to $800,000 and $176,400, respectively. During 2018, the Network incurred an additional $703,659 of costs related to the LaunchPad project that were not eligible to be capitalized. These costs are included in the accompanying combined statement of operating functional expenses.

Property and Equipment and Depreciation

The Network capitalizes all significant expenditures for property and equipment with useful lives in excess of one year at cost. Renewals and betterments are capitalized as additions to the related asset accounts, while repairs and maintenance are expensed as incurred.

Property and equipment, which are depreciated using the straight-line method over the following estimated useful lives, consist of the following as of December 31:

	Estimated Useful Lives	2018	2017
Furniture and equipment	3 - 5 years	$ 425,909	$ 419,493
Leasehold improvements	Life of lease (see Note 7)	209,933	209,993
		635,842	629,426
Less - accumulated depreciation		(556,111)	(480,173)
Net property and equipment		$ 79,731	$ 149,253

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

Net assets without donor restrictions include those net resources of the Network that bear no external restrictions and are generally available for use by the Network. The Network has grouped its net assets without donor restrictions into the following categories:

- ***Operating*** - represents net assets that are available for operations and bear no external restrictions.
- ***Affiliate investments*** - represents the portion of net assets invested in uncombined affiliates (see Note 3).

Net assets with donor restrictions are unexpended financial resources restricted by donors as to the purpose or timing of expenditure. All net assets with donor restrictions as of December 31, 2018 and 2017, are purpose restricted for the following programs of the Network:

	2018	2017
Research and Development	$ 3,305,404	$ 3,534,361
Capital Markets	551,090	566,190
Counseling and Education	200,000	100,000
Member Services	35,000	200,000
Multifamily Operations	-	234,093
	$ 4,091,494	$ 4,634,644

During 2018, HPN spent $800,000 of the above research and development funds on capitalized costs related to the LaunchPad database (see page 12). In accordance with the placed-in-service approach adopted by the Network as part of ASU 2016-14 (see page 10), these restricted grant funds will not be released from donor restrictions until the database is placed into service, which is expected to take place in 2019.

Net assets were released from donor restrictions by incurring expense satisfying the restricted purpose or other events specified by the donors as follows for the years ended December 31:

	2018	2017
Operating purpose restricted:		
Research and Development	$ 2,657,919	$ 1,236,934
Capital Markets	693,061	236,707
Single Family (Framework)	200,000	125,000
Counseling and Education	200,000	-
Member Services	165,000	-
Multifamily Operations	94,093	19,593
HPF	21,518	-
Total operating purpose restricted	4,031,591	1,618,234
Capital restricted (Framework)	200,000	125,000
Total Network release	$ 4,231,591	$ 1,743,234

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

The Network follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements,* for qualifying assets and liabilities. Fair value is defined as the price that the Network would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The Network uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Network. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

Combined Statements of Activities Without Donor Restrictions

Transactions deemed by management to be ongoing, major, or central to the provision of program services are reported as operating revenues and operating expenses in the accompanying combined statements of activities without donor restriction. All other revenue or expense is reported as non-operating.

Revenue Recognition

Revenues from interest on loans, investment income, management, membership and program service fees, loan fees, and other sources are recognized as revenue without donor restrictions as earned or when services are provided. Interest on loans is presented net of interest expense of $400,369 and $166,664 collected on behalf of loan participants (see Note 5) in 2018 and 2017, respectively.

Contracts and other are recorded as revenue when services are performed or when reimbursable. Contract revenue is also recognized to the extent of grants awarded to subrecipients (see page 15). Contract revenue received in advance of services being provided is recorded as deferred income in the accompanying combined statements of financial position.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Contributions and grants without donor restrictions are recognized as revenue upon receipt or as unconditionally pledged. Donor restricted grants and contributions with time or purpose restrictions are recognized as net assets with donor restrictions when received or unconditionally pledged. Net assets with donor time or purpose restrictions are transferred to net assets without donor restrictions as such gifts are used in accordance with donor restrictions. Net assets with donor capital restrictions are transferred to net assets without donor restrictions once the capital purchases are placed into service.

In-Kind Services

An organization contributed services to HPN in support of various aspects of its operations. These services are reflected in the accompanying combined financial statements based upon the estimated value assigned to them by the donating organization. The value of these donated services was $82,041 and $96,287 for the years ended December 31, 2018 and 2017, respectively, and are included in operating revenue in the accompanying combined statements of activities without donor restrictions and in communications and other expenses in the accompanying combined statements of operating functional expenses.

Awards to Subrecipients

Awards to subrecipients represent amounts received from HUD, NeighborWorks® America and other funders which are passed-through to the Network's member organizations under the Network's housing counseling, national foreclosure mitigation counseling and other programs. These grants are reflected as reductions of contract income and grants and contributions in the accompanying combined statements of activities without donor restrictions. From time-to-time, HPN also makes other awards to subrecipients from grant funds for special programs. Grants payable to subrecipients represent the unpaid portion of awards to members that were due to be paid as of the combined statement of financial position date.

Funding and Concentrations

Contract income from governmental agencies is subject to audit by the respective governmental authorities. In the opinion of management, the results of such audits, if any, will not have a material effect on the combined statements of financial position of the Network as of December 31, 2018 and 2017, or on the combined statements of activities without donor restrictions for the years then ended.

During 2018 and 2017, the Network received grants of $1,125,000 and $1,096,905, respectively, from the Treasury's CDFI Fund for program expansion. These grants were reported as operating revenue without donor restrictions in 2018 and 2017. In connection with these grants, the Network is required to adhere to specific performance goals and requirements as outlined in the agreements with the Treasury through June 2021. Failure to adhere to these requirements may result in repayment of Federal assistance received and ineligibility to receive future funding. HPN was in compliance with all benchmarks and goals as of December 31, 2018 and 2017.

As of December 31, 2018 and 2017, amounts due from the Treasury represented approximately 52% and 35%, respectively, of grants receivable. In addition, approximately 46% and 64% of the Network's grants receivable is due from one donor as of December 31, 2018 and 2017, respectively.

As of December 31, 2018 and 2017, approximately 83% and 88% of the Network's accounts and contracts receivable (see Note 8) are due from four and three payers, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expense Allocation

The costs of providing program and other activities have been summarized on a functional basis in the combined statements of operating functional expenses. The combined statements of operating functional expenses present the natural classification detail of expenses by function, including supporting services. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include salaries, fringe benefits and payroll taxes, consulting and service contracts, professional fees, conferences and meetings, occupancy, travel, office supplies and support, communications, depreciation, insurance and dues and publications which are allocated based on level of employee effort for each function as based on timesheets.

Income Taxes

The Network accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the combined financial statements regarding a tax position taken or expected to be taken in a tax return. The Network has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the combined financial statements at December 31, 2018 and 2017. The Network's information returns are subject to examination by the Federal and state jurisdictions.

Subsequent Events

Subsequent events have been evaluated through May 2, 2019, which is the date the combined financial statements were available to be issued. Events that met the criteria for recognition or disclosure have been disclosed in the combined financial statements (see Notes 3, 6 and 11).

3. UNCOMBINED AFFILIATES

The Network has made investments in and engaged in transactions with certain affiliated entities which were created, with the Network's participation, to carryout mission-related initiatives of the Network and its members. The Network does not maintain a controlling financial interest in any of these affiliates. Therefore, the financial statements of the affiliates are not consolidated or combined with those of the Network.

HPN's Investments in Uncombined Affiliates

HPN's investments in uncombined affiliates are as follows:

	HPIEx	Framework	NCST	Sub CDEs	Total
Net investment, December 31, 2016	$ 1,559,154	$ 2,133,633	$ 200,000	$ -	$ 3,892,787
Additional cash investment	-	125,000	-	3,000	128,000
Distribution received	(150,000)	(1,250,000)	-	-	(1,400,000)
Share of income	661,383	2,822,765	-	-	3,484,148
Net investment, December 31, 2017	2,070,537	3,831,398	200,000	3,000	6,104,935
Additional cash investment	-	200,000	-	4,000	204,000
Distribution received	(50,000)	(3,500,000)	-	-	(3,550,000)
Share of income	475,323	4,507,540	-	-	4,982,863
Net investment, December 31, 2018	$ 2,495,860	$ 5,038,938	$ 200,000	$ 7,000	$ 7,741,798

3. UNCOMBINED AFFILIATES (Continued)

HPN's Investments in Uncombined Affiliates (Continued)

Housing Partnership Insurance Exchange

Housing Partnership Insurance Exchange (HPIEx) is a for-profit association captive insurance company organized as a reciprocal insurer. HPN is entitled to 10% of income, losses and distributions of HPIEx. HPN also holds one seat on the Board of Directors. HPN operates HPIEx as its Attorney-in-Fact, but may be removed by a majority of other members. HPN accounts for its investment in HPIEx using the equity method (see Note 2).

Framework Homeownership, LLC

During 2012, HPN and one of its members formed Framework Homeownership, LLC (a Delaware limited liability company) (Framework). Framework was established to meet increasing demand for online homeowner counseling and education services; increase the sustainability of HPN member counseling; and achieve a broader vision of embedding homebuyer education into the home purchase process. HPN holds a 50% equity interest in Framework and has one of four voting seats on the Board of Directors. HPN made cash contributions of $200,000 and $125,000 during 2018 and 2017, respectively. HPN accounts for this investment using the equity method (see Note 2).

National Community Stabilization Trust, LLC

During 2008, HPN and three other non-profit organizations established the National Community Stabilization Trust, LLC (a Delaware limited liability company) (NCST). NCST was established to provide support services to state and local Neighborhood Stabilization Programs (NSP's) to ensure efficient transfer of foreclosed and abandoned properties from financial institutions, in order to promote productive property reuse and neighborhood revitalization. NCST works to stabilize targeted communities through aggregating capital from national, private and philanthropic sources and make financing available to support local efforts focused on the objective of stabilizing communities. HPN holds a Class A interest in NCST and is one of six Board members, but has no authority to appoint other Board members. HPN accounts for its investment in NCST using the cost method (see Note 2).

During 2018, HPN received an $80,000 fee from NCST (see Note 8) as a result of restructuring NCST's operating agreement. The fee is included in program service fees in the accompanying 2018 combined statement of activities without donor restrictions. HPN was paid $40,000 during 2018 and the remaining $40,000 is due in 2019 and is included in accounts and contracts receivable in the accompanying combined statement of financial position as of December 31, 2018.

SubCDE's

During 2018 and 2017, HPN applied for and received New Markets Tax Credit (NMTC) allocations of $30,000,000 and $40,000,000, respectively, from the CDFI Fund (see Note 1). The NMTC provides economic benefits to tax credit motivated investors through Community Development Entities (CDEs). A CDE is an organization designated by the United States Department of the Treasury to provide investment capital to low-income communities or persons. As part of the NMTC program, HPN received CDE status and established four sub-CDEs, HPN NMTC I, LLC (SubCDE 1), HPN NMTC II, LLC (SubCDE 2), HPN NMTC III, LLC (SubCDE 3) and HPN NMTC IV, LLC (SubCDE 4) (collectively, the SubCDEs), all Delaware limited liability companies formed for the purpose of making loans to or equity investments in companies formed to acquire, rehabilitate and operate real estate development projects.

3. UNCOMBINED AFFILIATES (Continued)

HPN's Investments in Uncombined Affiliates (Continued)

SubCDEs (Continued)

During 2018, HPN made capital contributions of $1,000 and $3,000 to SubCDE 3 and SubCDE 4, respectively, in exchange for a 0.01% membership interest in SubCDE 3 and SubCDE 4. During 2017, HPN made capital contributions of $1,500 (each) to SubCDE 1 and SubCDE 2 in exchange for a 0.01% membership interest in SubCDE 1 and SubCDE 2. HPN accounts for its investments in the SubCDEs using the cost method (see Note 2).

The SubCDEs have used the proceeds of an unrelated entity's Qualified Equity Investments (QEIs) to make loans to qualified active low-income community businesses (QALICBs). In addition, the SubCDEs paid one-time fees to HPN totaling $1,000,000 ($250,000 from SubCDE 3 and $750,000 from CDE 4) and $750,000 ($375,000 from both SubCDE 1 and SubCDE 2) for its sub-allocation of NMTCs, during the years ended December 31, 2018 and 2017, respectively, which are included in program service fees in the accompanying combined statements of activities without donor restrictions. HPN assigned its NMTC allocations to the SubCDEs as follows:

SubCDE 1	$ 15,000,000
SubCDE 2	$ 15,000,000
SubCDE 3	$ 10,000,000
SubCDE 4	$ 30,000,000

The terms of the agreements with the SubCDEs' investor members require HPN and the SubCDEs to maintain certain covenants to avoid recapture of the NMTC. As of December 31, 2018 and 2017, HPN and the SubCDEs were in compliance with all covenants that would cause a recapture of NMTC and management expects to maintain compliance throughout the seven-year life of each respective NMTC transaction.

The Investment Funds associated with the SubCDEs described above and on page 17 (Investment Funds) entered into option agreements with HPN and the respective investor members of the Investment Funds, whereby the investor members have the option to sell their respective investor interests in the Investment Funds to HPN for a purchase price of $1,000 (each transaction), in addition to all income taxes and closing costs associated with exercising the options. The investor members have the right to exercise these options at any time during a six-month period beginning at the end of each seven-year NMTC compliance period which end at various dates through 2025. In the event that the investor members do not elect to exercise the put options, HPN has a call option to purchase the interest from the investor members at fair market value as determined by mutual agreements among the parties, at any time during the six-month period following the respective put option period expirations.

3. UNCOMBINED AFFILIATES (Continued)

HPV's Investments in Uncombined Affiliates

HPV's investments in uncombined affiliates are as follows:

	CSFP	HPET	HPN Select	DDEIF	Total
Net investment, December 31, 2016	$ 535,612	$ 234,399	$ 629,439	$ -	$ 1,399,450
Distribution received	-	(25,048)	-	-	(25,048)
Share of income (loss)	120,819	98,441	(294,616)	-	(75,356)
Net investment, December 31, 2017	656,431	307,792	334,823	-	1,299,046
Initial cash investment	-	-	-	500,000	500,000
Additional cash investment	-	-	25,000	-	25,000
Share of income (loss)	45,018	(12,876)	(116,004)	(26,486)	(110,348)
Net investment, December 31, 2018	$ 701,449	$ 294,916	$ 243,819	$ 473,514	$ 1,713,698

Charter School Financing Partnership, LLC

During 2007, HPV established the Charter School Financing Partnership, LLC (a Delaware limited liability company) (CSFP), which is designed to encourage, facilitate, and assist charter schools with financing and all educational related activities. CSFP was formed with Class A and Class B unit investments. Five companies are Class A members of CSFP, while HPV is the Class B member. HPV operates CSFP as its general manager (see Note 8), but may be removed by a majority of Class A members. HPV also holds one seat on the Board of Managers. HPV accounts for its investment in CSFP using the equity method (see Note 2).

Housing Partnership Equity Trust

During 2012, HPV and twelve HPN members established the Housing Partnership Equity Trust (a Delaware limited liability company) (HPET). HPET was established to acquire and operate multifamily properties by making joint venture investments with its non-profit members. HPET operates through a controlled subsidiary, Housing Partnership Equity Trust REIT I, LLC (HPET REIT I) that has elected Real Estate Investment Trust (REIT) status with the IRC. HPN has a revolving line of credit agreement with HPET REIT I (see Note 5). HPN holds one seat on the Board of Directors of HPET and through 2017, HPV was the general manager of HPET under a management contract (see Note 8). Beginning in 2018, the management services provided to HPET included coordinating meetings with their members and facilitating meetings with prospective investors. During 2012, HPV made a $400,000 equity investment in HPET. HPET distributed $25,048 in dividends to HPV in 2017. HPV accounts for its investment in HPET using the equity method (see Note 2). In February 2019, HPV transferred all shares and control in HPET to HPN. In addition, during April 2019, HPN converted $250,000 of its loan receivable from HPET REIT I into an equity contribution as part of a capital raise from existing shareholders (see Note 5).

In December 2017, HPET's Board of Directors approved a "good-faith" bonus to HPN to be made in the form of $1,000,000 of nonvoting stock. The award is expected to take place in 2019.

3. UNCOMBINED AFFILIATES (Continued)

HPV's Investments in Uncombined Affiliates (Continued)

HPN Select, LLC

During 2015, HPN Select, LLC (HPN Select) (a Massachusetts limited liability company) was formed to provide group procurement services to its members throughout the United States. HPV committed to make original capital contributions totaling $1,500,000 to acquire 33% of equity interests of HPN Select, of which $1,000,000 resulted from the conversion of a loan and $500,000 was cash contributions made in equal installments of $250,000 in 2016 and 2015. During 2018, HPV made an additional contribution of $25,000, by converting a portion of its outstanding accounts receivable from HPN Select (see Note 8). HPV accounts for its investment in HPN Select using the equity method (see Note 2).

In addition, during 2017, HPV provided a loan to HPN Select for working capital needs, which allows for borrowings up to $735,000 (see Note 5).

Develop Detroit Equity Investment Fund, LLC

During 2018, Develop Detroit Equity Investment Fund (DDEIF) (a Delaware limited liability company) was formed in order to provide equity capital to certain Detroit-based housing and real estate development activities. DDEIF operates in conjunction with Develop Detroit, Inc. (see page 22), which controls DDEIF, through an affiliate, as its managing member. HPV made a capital contribution of $500,000 to acquire 49.98% of equity interest in DDEIF. HPV accounts for its investment in DDEIF using the equity method (see Note 2).

Affiliates' Financial Information

In accordance with the disclosure standards pertaining to ASC Topic, *Investment - Equity Method and Joint Ventures*, the following financial information relates to investee entities for which the Network maintains its investments on the equity method:

2018

Entity	Total Assets	Total Liabilities	Total Equity	Total Revenue	Total Expenses
HPIEx	$ 52,632,694	$ 25,036,202	$ 27,596,492	$ 24,280,539	$ 19,527,316
Framework	$ 11,398,884	$ 1,259,266	$ 10,139,618	$ 15,558,353	$ 6,543,273
CSFP	$ 15,988,847	$ 1,783,476	$ 14,205,371	$ 383,631	$ 147,131
HPET	$ 62,737,142	$ 10,507,264	$ 52,229,878	$ 1,106,013	$ 3,235,255
HPN Select	$ 2,199,440	$ 1,733,421	$ 466,019	$ 1,841,643	$ 2,474,346
DDEIF	$ 916,316	$ 36,120	$ 880,196	$ -	$ 19,456

2017

Entity	Total Assets	Total Liabilities	Total Equity	Total Revenue	Total Expenses
HPIEx	$ 48,737,853	$ 23,765,540	$ 24,972,313	$ 25,521,998	$ 18,908,171
Framework	$ 8,557,325	$ 832,787	$ 7,724,538	$ 9,452,307	$ 3,919,333
CSFP	$ 16,061,610	$ 2,092,739	$ 13,968,871	$ 438,782	$ 150,430
HPET	$ 58,461,211	$ 11,201,101	$ 47,260,110	$ 160,907	$ 5,651,095
HPN Select	$ 1,671,673	$ 996,951	$ 674,722	$ 1,266,771	$ 2,477,784

3. UNCOMBINED AFFILIATES (Continued)

Relationships with Other Uncombined Affiliates

Community Restoration Corporation

During 2011, HPN and three other non-profit organizations established the Community Restoration Corporation (a Delaware non-profit corporation) (CRC). CRC was established to conduct activities to help local non-profit organizations and governmental instrumentalities reclaim low-value distressed real properties to improve overall neighborhood stabilization and revitalization efforts. HPN holds one seat on the Board of Directors of CRC. HPN does not hold an equity investment in CRC.

HPF has provided three non-interest bearing loans to CRC to provide capital to remediate and restore specific pools of distressed mortgage notes held by CRC. The outstanding principal of these loans totaled $20,233,883 and $21,088,999 as of December 31, 2018 and 2017, respectively. The loans were funded with grant proceeds HPF received from a donor to support the neighborhood stabilization program of CRC.

Payments of principal in an amount equal to surplus funds generated by CRC from mortgage resolution efforts will commence ninety days following the first June 30th or December 31st after 75% of the mortgage loans have been resolved and CRC has cash on hand of at least 150% of the budgeted expenditures for the mortgage loans that have not been resolved. Thereafter, on each March 31st and September 30th until maturity, CRC will make payments of principal in the amount of surplus funds measured on December 31st and June 30th, respectively.

Within ninety days of the date the last mortgage loan is resolved, the member will pay all remaining cash on hand to HPF. During 2018, HPF received $855,116 based on surplus funds measured on June 30, 2018, which was applied to the balance of the loan. This payment is also included in loan loss recovery in the accompanying 2018 combined statement of activities without donor restrictions, as the entire loan balance was reserved at the time of payment (see below). In addition, based on surplus funds totaling $2,396,796 calculated on December 31, 2018, HPV removed this portion of the allowance against the loan balance. As a result, an additional $2,396,796 of loan loss recovery was recorded in the accompanying 2018 combined statement of activities without donor restrictions. In accordance with the CRC loan agreements, HPF is required to distribute 50% of loan repayments to NCST. During 2018, HPF paid NCST $427,558 and expects to pay an additional $1,198,398 based on the calculated amount recoverable as of December 31, 2018. Both amounts are included as a reduction of the loan loss recovery within non-operating revenue in the accompanying 2018 combined statement of activities without donor restrictions.

If CRC is in full compliance with the loan documents, upon resolution of all mortgage loans and repayment of any remaining cash on hand, HPF will forgive any remaining unpaid principal. If by the maturity date, all mortgage loans have not been resolved, any remaining principal is due and payable to HPF. Given the uncertainty associated with repayment, except for balances that are known to be collected in the subsequent year (see above), HPF has reserved the remaining principal balance of the loans at December 31, 2018 and 2017.

During 2017, CRC also made a grant to HPN totaling $351,152 as a "good-faith" payment for HPN's efforts in establishing CRC and having a pivotal role in achieving its objectives. This grant is included in grants and contributions in the accompanying 2017 combined statement of activities without donor restrictions.

3. UNCOMBINED AFFILIATES (Continued)

Relationships with Other Uncombined Affiliates (Continued)

Develop Detroit Inc.

Develop Detroit Inc. (Develop Detroit) is a non-profit real estate development company designed to play a major role in the stabilization and revitalization of neighborhoods and communities weakened by the decades-long economic decline in Detroit, Michigan. Sponsored by HPN, Develop Detroit is structured and capitalized as an independent nonprofit. Develop Detroit operates in key neighborhoods and is staffed and governed locally. HPN provides business and financial support to Develop Detroit (see Note 8).

Develop Detroit entered into a facility loan agreement with HPF to borrow up to $10,000,000 on a non-revolving basis, to finance its real estate and affordable rental housing projects in Detroit. The facility loan bears interest at 5.5%. Pursuant to the facility loan agreement, the proceeds will be disbursed from HPF to Develop Detroit from time-to-time through January 2021. Each disbursement is evidenced by a separate promissory note and the maturity date for each loan will not exceed three years. As of December 31, 2018 and 2017, the facility loan has an outstanding balance totaling $3,789,415 and $2,789,415, respectively, and matures in October 2019 (see Note 5).

4. RESTRICTED DEPOSITS

Restricted deposits consist of cash and certain investments of the Network, which are restricted for use in connection with certain financing agreements of the Network.

Interest and Project Reserve

Pursuant to the facility loan agreement with Develop Detroit (see Note 3), HPF has a right to hold back a portion of the principal drawn down by Develop Detroit to be used as reserves for interest and security on the loan. The interest and security reserves are calculated as 5.5% and 15%, respectively, of the project amount, as defined in the agreement. The balances of these reserves totaled $621,576 and $402,813 at December 31, 2018 and 2017, respectively.

In addition, during 2017, HPF withheld a portion of the principal it advanced under a loan made to a member to serve as collateral. The balance outstanding at December 31, 2017, totaled $65,294. These accounts are offset by loan escrows liability in the accompanying combined statements of financial position.

4. LOANS RECEIVABLE

HPN

HPN generally lends to Network members or affiliates and has made intercompany loans to HPF and HPV (see Note 6), as well as real estate purchase loans and development loans to affiliates. HPN's loans receivable consist of the following as of December 31:

	2018	2017
Real estate purchase and development loans to four members, bearing interest at rates varying between 4.00% and 6.25% and maturing at various dates through June 2022. Interest on these notes is due in monthly payments through maturity. Three of these notes are unsecured and the fourth is secured by a security interest in certain land purchased using the proceeds of the loan.	$ 4,250,000	$ 3,250,000
HPF entered into an unsecured, non-interest bearing loan agreement with HPN which was set to expire in June 2017, but was extended to June 30, 2022. This loan is eliminated from the accompanying combined statements of financial position.	5,322,441	1,250,000
$2,272,727 revolving line of credit agreement with HPET REIT I (see Note 3), bearing interest at 4% annually, paid quarterly and in arrears. It was set to expire on March 1, 2018, but was extended to June 2021. The line of credit is unsecured. In April 2019, $250,000 of this loan was converted to an equity contribution in HPET as part of a capital raise from existing shareholders (see Note 3).	1,136,364	2,272,727
HPV entered into an unsecured, non-interest bearing loan agreement with HPN which expires in December 2022. This loan is eliminated from the accompanying combined statements of financial position.	250,000	-
	10,958,805	6,772,727
Less - allowance for loan losses	(158,523)	(113,750)
	10,800,282	6,658,977
Less - current portion (net of allowance)	-	(2,583,864)
Total HPN long-term portion	$ 10,800,282	$ 4,075,113

5. LOANS RECEIVABLE (Continued)

HPF

HPF generally lends to members and affiliated entities of HPN and offers various types of loans, including real estate Predevelopment and Acquisition Loans, Stabilization Lines of Credit, and Enterprise Development Loans. Loans receivable of HPF consist of the following as of December 31:

	2018	2017
Real estate purchase and development loans to twenty nine and fourteen members, respectively, bearing interest at rates between 4.50% and 7.1%, and maturing at various dates through July 2028. Each loan requires monthly or quarterly interest-only payments through maturity, at which time the entire principal balance is due. All notes are secured by various assets of the members.	$ 29,805,691	$ 14,162,664
HPF has unsecured lines of credit agreements with one and two members totaling $3,250,000 as of December 31, 2018 and 2017, respectively. The balance of these lines of credit is net of third party participations which totaled $1,625,000 at December 31, 2018 and 2017. The line of credit outstanding at December 31, 2018, expires in May 2019.	1,625,000	1,625,000
HPF has an unsecured outstanding acquisition loan receivable, which bears interest at 0.25%, and matures on January 31, 2042. The acquisition loan and all accrued interest are payable at maturity.	420,000	420,000
	31,850,691	16,207,664
Less - allowance for loan losses	(908,769)	(503,876)
	30,941,922	15,703,788
Less - current portion (net of allowance)	(7,677,471)	(1,466,335)
Total HPF long-term portion	$ 23,264,451	$ 14,237,453

HPV

HPV has a loan receivable from HPN Select (see Note 3) for borrowings up to $735,000. The note is secured by a life insurance policy on the life of the President of HPN Select and all of its assets. The note bears interest at 7.5% per annum through July 1, 2022 (maturity). All outstanding principal and accrued interest on this note are due at maturity. The principal balance outstanding on the note receivable was $735,000 and $366,539 at December 31, 2018 and 2017, respectively, and is included in long-term loans receivable in the accompanying combined statements of financial position. The allowance for loan losses related to this loan was $51,450 as of December 31, 2018. There was no allowance for loan losses as of December 31, 2017.

Loan Commitments

The real estate purchase and development loans above include the loan receivable from Develop Detroit (see Note 3). In January 2019, HPF increased its available borrowings under the note from $6,000,000 to $10,000,000. Under this amended loan agreement, each future draw will be treated as a separate promissory note with a maturity date of thirty-six months from the date of the draw or permanent financing relating to the specific project, whichever is sooner. Develop Detroit can continue to draw down on these additional borrowings through January 2021.

The Network has other unfunded loan commitments totaling $2,802,901 as of December 31, 2018.

5. LOANS RECEIVABLE (Continued)

Schedule of Repayments

Scheduled principal repayments of gross loans receivable, net of amounts owed to participants as of December 31, 2018, are as follows:

Year	HPN	HPF	HPV	Eliminations	Total
2019	$ -	$ 7,677,471	$ -	$ -	$ 7,677,471
2020	$ 750,000	$ 11,666,404	$ -	$ -	$ 12,416,404
2021	$ 3,636,364	$ 9,297,655	$ -	$ -	$ 12,934,019
2022	$ 6,572,441	$ -	$ 735,000	$ (5,572,441)	$ 1,735,000
2023	$ -	$ -	$ -	$ -	$ -
Thereafter	$ -	$ 3,209,161	$ -	$ -	$ 3,209,161

Allowance for Loan Losses

The allowance for loan losses is an estimate of expected loan losses as determined by management based on risks perceived at loan inception and adjusted periodically as loans are monitored. The loan loss allowance is based on expected losses as determined under the Network's risk rating system. Loan loss recoveries are recognized when payments are received on previously reserved loans. The loan loss allowance consists of the following:

	HPN	HPF	HPV	Total
Balance, December 31, 2016	$ 82,250	$ 839,164	$ -	$ 921,414
Loan loss provision (recovery)	31,500	(335,288)	-	(303,788)
Balance, December 31, 2017	113,750	503,876	-	617,626
Loan loss provision	44,773	404,893	51,450	501,116
Balance, December 31, 2018	$ 158,523	$ 908,769	$ 51,450	$ 1,118,742

The Network uses a four number-based credit rating system, with "1" representing the highest quality/lowest risk credits and "4" representing the lowest quality/highest credit risk credits.

The following table presents the Network's loans receivable balances and related allowance by risk rating at December 31:

		2018		2017	
Category	Risk Rating	Loan Balance	Loan Loss Allowance	Loan Balance	Loan Loss Allowance
Very Good	1	$ 9,301,796	$ 166,450	$ 6,305,419	$ 64,923
Satisfactory	2	27,945,815	901,581	15,791,511	552,703
Below Average	3	724,444	50,711	-	-
Uncollectable	4	-	-	-	-
		$ 37,972,055	$ 1,118,742	$ 22,096,930	$ 617,626

6. LONG-TERM DEBT

Loans Payable

Loans payable consists of the following at December 31:

HPN	2018	2017
Unsecured loan payable to US Bank (see page 29). This loan bears interest at a rate of 4.33% and is due in quarterly interest-only payments through December 2021 (maturity). All outstanding principal and accrued interest are due at maturity.	$ 5,500,000	$ -
Unsecured loan payable to the Calvert Social Investment Foundation, Inc. (Calvert). This loan bears interest at a rate of 4.89% and is due in quarterly interest-only payments through October 2023 (maturity). All outstanding principal and accrued interest are due at maturity.	4,000,000	-
Unsecured loan payable to Opportunity Finance Network to support the continued capital expansion of HPET (see Note 3). This loan bears interest at a rate of 3% and is due in quarterly interest-only payments through October 31, 2020, at which time additional annual principal payments of $568,182 are due through the maturity date of October 31, 2023.	2,272,727	2,272,727
Unsecured revolving loan payable to Webster Bank, which allows for borrowings up to $4,000,000. The interest rate on this loan is based on a spread resulting from the one, three, or six month London Interbank Offered Rate (LIBOR), dependent on HPN's selection at the time of each draw on the loan. This loan bore interest at a rate of 4.89% during 2018 and is due in quarterly interest-only payments through July 2023 (maturity). All outstanding principal and accrued interest are due at maturity.	1,000,000	-
Unsecured loan payable to Calvert. The interest rate on this loan was set by Calvert annually for the coming year. This loan bore interest at a rate of 4.5% during 2018 and 2017 and was due in quarterly interest-only payments through the extended maturity date of September 2018, at which time the loan was repaid.	-	2,000,000
Total HPN	12,772,727	4,272,727
HPF		
Unsecured loan payable to CommonBond Communities, a member of HPN. The proceeds of this note were used to make an acquisition loan to this member (see Note 5). This loan bears no interest and all outstanding principal is due on January 31, 2042 (maturity).	420,000	420,000

6. LONG-TERM DEBT (Continued)

Loans Payable (Continued)

HPF (Continued)	**2018**	**2017**
Unsecured loan payable agreement with Charles Schwab, which allows for borrowings up to $20,000,000. During February 2019, this note was increased for borrowing up to $25,000,000. This note is due in quarterly interest-only payments equal to the greater of the three-month LIBOR plus 1.75% or 2.75%. All outstanding principal and accrued interest are due at maturity. This loan was set to mature in December 2018, at which time the terms of the agreement were extended, under similar terms, through December 2022.	15,500,000	10,000,000
Unsecured, non-interest bearing loan payable to HPN which allows for borrowings up to $6,000,000 for the purpose of providing permanent working capital to support community development lending. All outstanding principal is due in June 2022 (maturity). This loan has been eliminated from the accompanying combined statements of financial position.	5,322,441	1,250,000
Unsecured loan payable to Capital One Bank for the purpose of providing permanent working capital to support community development lending. This loan bears interest at a rate of 2% and is due in quarterly interest-only payments through November 2019 (maturity). All outstanding principal and accrued interest are due at maturity.	1,000,000	1,000,000
Unsecured loan payable to the Kresge Foundation, which allows for borrowings up to $3,000,000 for the purpose of funding member loans. This loan bears interest at a rate of 2% and matures on the tenth anniversary of the initial disbursement of the loan (July 2028). The loan requires interest-only payments through the ninth anniversary of the initial disbursement of the loan, at which time one-half of the outstanding principal is due, with the remaining principal due at maturity.	2,149,264	-
Unsecured loan payable to an unrelated third party. This loan bears interest at a rate of 2.75% and is due in annual interest-only payments through June 2021 (maturity). All outstanding principal and accrued interest are due at maturity.	50,000	-
Total HPF	24,441,705	12,670,000

6. LONG-TERM DEBT (Continued)

Loans Payable (Continued)

HPV	**2018**	**2017**
Non-interesting bearing unsecured loan payable to HPN which matures in December 2022. This loan has been eliminated from the accompanying combined statements of the financial position.	250,000	-
Total Network	37,464,432	16,942,727
Less - eliminations	(5,572,441)	(1,250,000)
Total long-term debt	31,891,991	15,692,727
Less - current portion	(1,000,000)	(2,000,000)
	$ 30,891,991	$ 13,692,727

The Network had total available credit of $8,350,736 as of December 31, 2018. In February 2019, the Network was committed an additional $5,000,000 of available credit on one of its lines of credit (see page 27).

Certain loans payable contain financial and non-financial covenants with which the Network must comply. As of December 31, 2018 and 2017, the Network was in compliance with these covenants.

Equity Equivalent Loans Payable

HPN

HPN has two unsecured equity equivalent loans from Wells Fargo Community Investment Holdings (Wells Fargo) in the amounts of $1,000,000 and $1,500,000, maturing in September 2020 and December 2028, respectively, and bearing a fixed interest rate of 2% per annum. These loans are to support the lending activities of HPF and HPV and to make loans to member organizations for the purchase, rehabilitation and development of affordable housing. HPN may prepay these loans in whole or in part at any time without penalty.

The $1,000,000 note is due in quarterly interest-only payments until maturity, when remaining interest and principal are due. HPN may prepay these loans in whole or in part at any time without penalty. HPN has the option to extend this loan for an additional two years by delivering a written request to Wells Fargo thirty days prior to the maturity date.

The $1,500,000 loan is due in quarterly interest-only payments through December 2026, at which time, quarterly principal plus interest payments of $185,500 are due through maturity.

6. LONG-TERM DEBT (Continued)

HPF

As part of a since terminated syndicated line of credit agreement with seven participating financial institutions, the participants were obligated to provide equity equivalent loans to HPF equal to 10% of their participation in the line of credit, some of which have been repaid. The balances of the remaining loans payable were as follows at December 31, 2018 and 2017:

	2018	2017
KeyBank National Association (KeyBank)	$ 500,000	$ 500,000
U.S. Bancorp Community Development Corporation (US Bank)	-	500,000
Total	$ 500,000	$ 1,000,000

Interest on the KeyBank and US Bank equity equivalent loans is 2%. The US Bank note was repaid during 2018. The KeyBank note contains extension provisions if HPF satisfactorily performs its obligations under the related note agreements. Both loans are unsecured.

Total Maturities of Long-Term Debt

Maturities of all long-term debt as of December 31, 2018, are as follows:

Year	Equity Equivalent Loans	Loans Payable	Eliminations	Total
2019	$ -	$ 1,000,000	$ -	$ 1,000,000
2020	$ 1,000,000	$ 568,182	$ -	$ 1,568,182
2021	$ -	$ 6,118,182	$ -	$ 6,118,182
2022	$ -	$ 21,640,623	$ (5,572,441)	$ 16,068,182
2023	$ -	$ 5,568,181	$ -	$ 5,568,181
Thereafter	$ 2,000,000	$ 2,569,264	$ -	$ 4,569,264

7. LEASES

The Network has a lease agreement for office space in Boston, Massachusetts through February 2020. The Network recognizes rent expense under the lease on a straight-line basis over the term of the lease in accordance with ASC Topic, *Leases*. Accrued rent was $41,617 and $62,962 as of December 31, 2018 and 2017, respectively, and is included in accrued expenses in the accompanying combined statements of financial position. The Network also leases space in Washington D.C. under a lease agreement which expires in June 2020. The Network is obligated to pay monthly rental payments and is also responsible for its share of real estate taxes and utilities under these agreements.

Total expense under the facility leases was $403,160 and $395,125 for 2018 and 2017, respectively, and is included in occupancy in the accompanying combined statements of operating functional expenses.

7. LEASES (Continued)

Future minimum lease payments, excluding real estate taxes and utilities, under these agreements are as follows:

2019	$ 417,147
2020	114,081
Total	$ 531,228

8. OTHER RELATED PARTY TRANSACTIONS

Management Agreements

Certain affiliates (see Note 3) engaged HPN for management services based on various agreements and terms, renewable annually. The majority of the amounts are earned on a cost recovery basis. Management fees earned by HPN are as follows:

	2018	2017
Combined Affiliates:		
HPF	$ 482,936	$ 250,000
Uncombined Affiliates:		
Framework	2,451,275	1,823,077
HPIEx	865,000	921,852
Develop Detroit	340,831	346,520
HPN Select	314,795	307,213
HPET	105,841	439,467
CSFP	72,000	73,247
Total management fees	4,632,678	4,161,376
Less - eliminations	(482,936)	(250,000)
Total management fees, net of eliminations	$ 4,149,742	$ 3,911,376

Program Service Agreements

Contracted Services and Organizing Sponsor Fees - Develop Detroit

Develop Detroit has an agreement to pay HPN sponsor fees for its efforts and investment in organizing Develop Detroit. This agreement contains a fixed and variable component, whereby Develop Detroit was required to make quarterly payments of $62,500 through December 31, 2018 (the Fixed Fee), and effective January 1, 2017, Develop Detroit is also required to make an annual payment equal to 25% of Develop Detroit's operating net income (the Variable Fee).

Develop Detroit will be required to make payments under the Variable Fee agreement until the Fixed Fee and Variable Fee reach $1,800,000 or until December 31, 2025, whichever comes first. Cumulative variable and fixed fees totaled $910,002 and $610,672 as of December 31, 2018 and 2017, respectively.

Other Fees - HPET

HPN earned program service fees from HPET totaling $210,000 for the years ended December 31, 2018 and 2017, which are included in program service fees in the accompanying combined statements of activities without donor restrictions.

8. OTHER RELATED PARTY TRANSACTIONS (Continued)

Program Service Agreements (Continued)

Other Fees - HPET (Continued)

Fees earned under contracted services and organizing sponsor fees, sub-allocation fees (see Note 3), and other fee agreements are reported as program service fees in the accompanying combined statements of activities without donor restrictions and were as follows for the years ended December 31:

	2018	2017
Sub-allocation fees	$ 1,000,000	$ 750,000
Contracted Services and Organizing Sponsor Fees - Develop Detroit Fixed	250,000	250,000
Other fees - HPET (see above)	210,000	210,000
Other fees - NCST (see Note 3)	80,000	-
Contracted Services and Organizing Sponsor Fees - Develop Detroit Variable	49,330	110,672
Other third-party program service fees	45,460	80,120
	1,634,790	1,400,792
Less - provision for valuation allowance	(300,000)	-
Total program service fees	$ 1,334,790	$ 1,400,792

In December 2017, HPET and HPN entered into a termination agreement whereby HPET agreed to pay HPN $600,000 in lieu of previously contracted management service fees. The termination fee is payable in quarterly installments of $37,500 beginning in 2018 through 2021. This fee is reflected as termination fee in non-operating revenue in the accompanying 2017 combined statement of activities without donor restrictions.

Accounts and Contracts Receivables

Amounts owed to the Network for management and program service fees and contracts are included in accounts and contracts receivable in the accompanying combined statements of financial position and are as follows as of December 31:

	2018	2017
Combined Affiliates:		
HPF	$ 267,140	$ 250,000
Uncombined Affiliates:		
Develop Detroit	2,008,575	1,020,615
HPN Select	858,787	431,171
Framework	618,719	334,227
HPET	613,429	712,943
CSFP	98,840	27,600
NCST	40,000	-
Third parties	586,387	193,744
	5,091,877	2,970,300
Less - allowance	(300,000)	-
Total accounts and contracts receivable	4,791,877	2,970,300
Less - eliminations	(267,140)	(250,000)
Total Network	4,524,737	2,720,300
Less - current portion	(4,127,147)	(2,195,212)
	$ 397,590	$ 525,088

9. RETIREMENT PLAN

The Network participates in a group retirement plan for its employees qualified under IRC Section 401(k) (Insperity 401k Plan) effective August 2011. The Network makes discretionary contributions to eligible employees' retirement funds. The employer matching contribution was 100% of the first 3% contributed by each employee. The Network also contributed a qualified non-elective employer contribution of 5% per payroll to HPN's 401k Plan. Employees are eligible when they reach twenty-one years of age and complete three consecutive months of employment. The Network's contribution totaled $570,601 and $466,171 for 2018 and 2017, respectively, and is included in fringe benefits in the accompanying combined statements of operating functional expenses.

10. GRANTS RECEIVABLE

Unconditional grants receivable as of December 31, 2018 and 2017, are due as follows:

	2018	2017
Amounts due:		
Within one year	$ 2,157,442	$ 2,135,129
Within two years	-	1,000,000
	2,157,442	3,135,129
Less - current portion	2,157,442	2,135,129
	$ -	$ 1,000,000

These amounts are not discounted to present value as discounts are not significant.

11. LIQUIDITY

Financial assets available for general operating use, that is, without donor or other restrictions limiting their use (see Note 2), within one year of the combined statement of financial position date, comprise the following at December 31, 2018:

Cash and cash equivalents	$ 11,375,232
Current portion of accounts and contracts receivable	4,127,147
Current portion of grants receivable	2,157,442
Current portion of loans receivable	7,677,471
Interest receivable	249,787
Total	$ 25,587,079

The Network's cash management objectives are to carry out the Network's mission. Effective cash management enhances the Network's capacity to increase access to capital for the benefit of low and moderate-income people through the partnerships with its member organizations and businesses, government, and philanthropic institutions.

As part of the Network's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Network aims to maintain working capital balances of at least three months of operating expenses. Management regularly monitors the availability of resources required to manage liquidity, using a variety of reports and practices to manage asset-liability matching and to identify liquidity concerns.

11. LIQUIDITY (Continued)

The Network is substantially supported through management fees, program fees and its share of affiliate income. As a result of the Network's investments in uncombined affiliates, it received cash distributions of $3,550,000 and $1,425,048 during the years ended December 31, 2018 and 2017, respectively. Philanthropic grant and contribution capital is generally utilized by the Network to fund innovation initiatives and these costs can be controlled based on the annual yield of capital raised.

To supplement liquidity for mission-related financing, the Network currently has three committed lines of credit which it could further draw upon, in the amount of $8,350,736 as of December 31, 2018 (see Note 6). In February 2019, the Network was committed an additional $5,000,000 of available credit on one of its lines of credit. The Network also utilizes participation strategies to manage liquidity when they are considering large loans, through actively engaging other organizations in a variety of co-lending arrangements.

12. RECLASSIFICATION

Certain amounts in the 2017 combined financial statements have been reclassified to conform with the 2018 presentation.