



AND AFFILIATES

**COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

THE HOUSING PARTNERSHIP NETWORK, INC. AND AFFILIATES

Contents
December 31, 2017 and 2016

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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, 2017 and 2016, and the related combined statements of unrestricted activities, 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, 2017 and 2016, 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, Brown, Pinning & Co., P.C.

Boston, Massachusetts
May 7, 2018

THE HOUSING PARTNERSHIP NETWORK, INC. AND AFFILIATES

Combined Statements of Financial Position
December 31, 2017 and 2016

Assets	2017	2016
Current Assets:		
Cash and cash equivalents	\$ 8,199,498	\$ 8,683,979
Current portion of accounts and contracts receivable	2,195,212	1,192,300
Current portion of grants receivable	2,135,129	863,792
Current portion of loans receivable, net of allowance for loan loss	4,050,199	1,356,362
Interest receivable	77,109	70,397
Prepaid expenses and other	144,348	184,322
Total current assets	16,801,495	12,351,152
Restricted Deposits	836,568	931,915
Accounts and Contracts Receivable, net of current portion	525,088	-
Grants Receivable, net of current portion	1,000,000	-
Loans Receivable, net of current portion and allowance for loan loss	17,429,105	13,656,075
Investments in Uncombined Affiliates	7,403,981	5,292,237
Property and Equipment, net	149,253	198,854
Total assets	\$ 44,145,490	\$ 32,430,233
Liabilities and Net Assets		
Current Liabilities:		
Grants payable to subrecipients	\$ 318,019	\$ 72,911
Current portion of other loans payable	2,000,000	-
Accounts payable	281,018	229,028
Accrued expenses	1,300,300	1,109,795
Deferred income	12,685	17,387
Total current liabilities	3,912,022	1,429,121
Loan Escrows Liability	468,107	843,026
Other Loans Payable, net of current portion	13,692,727	11,292,727
Equity Equivalent Loans Payable	3,500,000	3,500,000
Total liabilities	21,572,856	17,064,874
Net Assets:		
Unrestricted:		
Operating	10,534,009	7,895,244
Affiliate investments	7,403,981	5,292,237
Total unrestricted	17,937,990	13,187,481
Temporarily restricted	4,634,644	2,177,878
Total net assets	22,572,634	15,365,359
Total liabilities and net assets	\$ 44,145,490	\$ 32,430,233

THE HOUSING PARTNERSHIP NETWORK, INC. AND AFFILIATES

Combined Statements of Unrestricted Activities
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues:		
Earned income:		
Management fees	\$ 4,273,175	\$ 3,100,243
Share of income of affiliates	3,703,408	2,043,808
Contracts and other	1,064,469	1,349,105
Less - awards to subrecipients	(859,841)	(1,170,626)
Membership fees	795,700	942,928
Program service fees	1,260,120	980,560
Other revenue	189,214	299,621
	<u>10,426,245</u>	<u>7,545,639</u>
Financial and related revenue (losses):		
Interest on loans, net	1,064,330	586,308
Loan fees	129,974	357,653
Investment income	15,204	12,336
Less - interest expense	(541,020)	(317,828)
Less - net loan loss recovery (provision)	303,788	(671,053)
	<u>972,276</u>	<u>(32,584)</u>
Grants and contributions:		
Grants and contributions	1,774,942	1,235,000
In-kind services	96,287	106,560
Net assets released from purpose restrictions	1,743,234	2,592,610
Less - awards to subrecipients	(450,605)	(440,809)
	<u>3,163,858</u>	<u>3,493,361</u>
Net operating revenue	<u>14,562,379</u>	<u>11,006,416</u>
Operating Expenses:		
Program services	7,473,824	7,303,666
General and administrative	2,445,184	1,624,353
Fundraising and communication	323,246	309,685
	<u>10,242,254</u>	<u>9,237,704</u>
Total operating expenses	<u>10,242,254</u>	<u>9,237,704</u>
Changes in unrestricted net assets from operations	<u>4,320,125</u>	<u>1,768,712</u>
Non-Operating Revenue (Expense):		
Termination fee	600,000	-
Capital grants	125,000	10,085,454
Loan loss provision	-	(10,085,454)
Share of losses of affiliates	(294,616)	(634,265)
Net assets released from capital restrictions	-	266,315
	<u>430,384</u>	<u>(367,950)</u>
Total non-operating revenue (expense)	<u>430,384</u>	<u>(367,950)</u>
Changes in unrestricted net assets	<u>\$ 4,750,509</u>	<u>\$ 1,400,762</u>

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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Net Assets , beginning of year	\$ 15,365,359	\$ 13,703,522
Changes in unrestricted net assets	<u>4,750,509</u>	<u>1,400,762</u>
Changes in temporarily restricted net assets:		
Grants and contributions	4,200,000	3,120,000
Net assets released from restrictions	<u>(1,743,234)</u>	<u>(2,858,925)</u>
Total changes in temporarily restricted net assets	<u>2,456,766</u>	<u>261,075</u>
Changes in net assets	<u>7,207,275</u>	<u>1,661,837</u>
Net Assets , end of year	<u><u>\$ 22,572,634</u></u>	<u><u>\$ 15,365,359</u></u>

THE HOUSING PARTNERSHIP NETWORK, INC. AND AFFILIATES

Combined Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 7,207,275	\$ 1,661,837
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	71,422	69,302
Loan fees	(16,539)	-
Capital grants	(125,000)	(10,085,454)
Net loan loss provision (recovery)	(303,788)	10,756,507
Share of income of affiliates, net	(3,408,792)	(1,409,543)
Changes in operating assets and liabilities:		
Accounts and contracts receivable	(1,528,000)	(432,043)
Grants receivable	(2,271,337)	(12,352)
Interest receivable	(6,712)	(32,002)
Prepaid expenses and other	39,974	37,092
Grants payable to subrecipients	245,108	(263,947)
Accounts payable	51,990	92,502
Accrued expenses	190,505	203,094
Deferred income	(4,702)	(421,000)
	<u>141,404</u>	<u>163,993</u>
Net cash provided by operating activities		
Cash Flows from Investing Activities:		
Principal payments on loans receivable	2,905,556	753,847
Distribution from affiliates	1,425,048	126,940
Decrease in funds held for others	-	(1,493,739)
Purchase of property and equipment	(21,821)	(17,373)
Cash investment in affiliates	(128,000)	(516,315)
Decrease (increase) in restricted deposits	(279,572)	15,000
Issuance of loans receivable	(9,052,096)	(17,174,869)
	<u>(5,150,885)</u>	<u>(18,306,509)</u>
Net cash used in investing activities		
Cash Flows from Financing Activities:		
Proceeds from other loans payable	4,400,000	8,100,000
Capital grants	125,000	10,085,454
	<u>4,525,000</u>	<u>18,185,454</u>
Net cash provided by financing activities		
Net Change in Cash and Cash Equivalents	(484,481)	42,938
Cash and Cash Equivalents:		
Beginning of year	<u>8,683,979</u>	<u>8,641,041</u>
End of year	<u>\$ 8,199,498</u>	<u>\$ 8,683,979</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 597,805</u>	<u>\$ 364,372</u>
Supplemental Disclosure of Non-Cash Information:		
Loan fees from issuance of loans receivable	<u>\$ 16,539</u>	<u>\$ -</u>

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

THE HOUSING PARTNERSHIP NETWORK, INC. AND AFFILIATES

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

	Program Services						Support Services			Total	
	Counseling and Education	Member Services	Capital Markets	Multifamily Operations	Platform Services	Research and Development	Total Program Services	General and Administrative	Fundraising and Communication		Total Support Services
Personnel and Related Costs:											
Salaries	\$ 1,237,289	\$ 898,045	\$ 800,027	\$ 449,991	\$ 231,726	\$ 730,108	\$ 4,347,186	\$ 1,263,756	\$ 198,816	\$ 1,462,572	\$ 5,809,758
Fringe benefits	197,437	159,896	125,659	77,639	37,209	96,511	694,351	200,951	31,947	232,898	927,249
Payroll taxes	79,859	64,505	50,844	31,355	15,038	38,987	280,588	81,411	12,892	94,303	374,891
Total personnel and related costs	1,514,585	1,122,446	976,530	558,985	283,973	865,606	5,322,125	1,546,118	243,655	1,789,773	7,111,898
Other:											
Consulting and service contracts	35,705	32,439	295,041	35,375	131,772	63,917	594,249	172,742	42,885	215,627	809,876
Conferences and meetings	47,814	278,878	30,570	25,646	1,482	42,480	426,870	27,098	1,842	28,940	455,810
Professional fees	27,640	29,818	113,331	6,107	3,111	36,129	216,136	235,886	2,341	238,227	454,363
Occupancy	85,388	59,095	46,674	66,160	13,313	83,774	354,404	53,794	12,789	66,583	420,987
Travel	19,203	74,770	38,809	49,441	8,748	34,139	225,110	64,718	13,999	78,717	303,827
Office supplies and support	1,567	19,999	7,659	1,868	22,079	2,169	55,341	173,025	740	173,765	229,106
Communications	97,380	4,026	3,822	1,721	674	2,769	110,392	43,585	857	44,442	154,834
Depreciation	13,976	9,374	7,479	12,161	2,117	13,339	58,446	10,934	2,042	12,976	71,422
Insurance	28,927	3,294	23,059	4,143	745	4,694	64,862	4,007	718	4,725	69,587
Staff development	-	346	2,030	-	-	1,278	3,654	60,856	58	60,914	64,568
Other	81	82	11,242	-	-	639	12,044	46,442	-	46,442	58,486
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	1,872,266	1,661,427	1,558,746	761,607	468,626	1,151,152	7,473,824	2,445,184	323,246	2,768,430	10,242,254
General and Administrative Allocation	587,148	521,028	488,827	238,842	146,962	361,006	2,343,813	(2,445,184)	101,371	(2,343,813)	-
Total operating expenses	<u>\$ 2,459,414</u>	<u>\$ 2,182,455</u>	<u>\$ 2,047,573</u>	<u>\$ 1,000,449</u>	<u>\$ 615,588</u>	<u>\$ 1,512,158</u>	<u>\$ 9,817,637</u>	<u>\$ -</u>	<u>\$ 424,617</u>	<u>\$ 424,617</u>	<u>\$ 10,242,254</u>

THE HOUSING PARTNERSHIP NETWORK, INC. AND AFFILIATES

Combined Statement of Operating Functional Expenses
For the Year Ended December 31, 2016

	Program Services						Support Services			Total	
	Counseling and Education	Member Services	Capital Markets	Multifamily Operations	Platform Services	Research and Development	Total Program Services	General and Administrative	Fundraising and Communication		Total Support Services
Personnel and Related Costs:											
Salaries	\$ 819,975	\$ 1,282,664	\$ 561,903	\$ 479,179	\$ 186,826	\$ 663,961	\$ 3,994,508	\$ 678,278	\$ 222,638	\$ 900,916	\$ 4,895,424
Fringe benefits	121,663	198,965	85,173	72,190	28,350	99,715	606,056	166,620	33,778	200,398	806,454
Payroll taxes	48,381	76,950	33,547	28,648	10,792	39,524	237,842	42,392	13,082	55,474	293,316
Total personnel and related costs	990,019	1,558,579	680,623	580,017	225,968	803,200	4,838,406	887,290	269,498	1,156,788	5,995,194
Other:											
Consulting and service contracts	139,716	277,908	88,514	277,146	62,668	177,832	1,023,784	104,185	4,550	108,735	1,132,519
Conferences and meetings	25,542	374,869	2,064	3,154	279	28,160	434,068	11,236	3,173	14,409	448,477
Professional fees	24,298	24,206	131,896	11,569	2,249	25,310	219,528	181,646	3,655	185,301	404,829
Occupancy	73,702	80,465	39,958	54,889	6,714	73,278	329,006	80,050	14,030	94,080	423,086
Travel	17,628	138,917	20,565	31,536	3,364	31,720	243,730	11,903	10,318	22,221	265,951
Office supplies and support	8,386	43,771	12,591	2,595	2,248	3,909	73,500	189,092	832	189,924	263,424
Communications	1,655	2,539	1,210	1,058	795	1,564	8,821	135,995	290	136,285	145,106
Depreciation	11,804	12,385	6,149	10,889	1,033	12,034	54,294	12,849	2,159	15,008	69,302
Insurance	28,818	5,063	22,187	4,219	422	4,919	65,628	4,700	883	5,583	71,211
Other	175	-	338	-	-	-	513	566	-	566	1,079
Dues and publications	-	9,645	2,500	-	-	243	12,388	4,841	297	5,138	17,526
Total operating expenses before general and administrative allocation	1,321,743	2,528,347	1,008,595	977,072	305,740	1,162,169	7,303,666	1,624,353	309,685	1,934,038	9,237,704
General and Administrative Allocation	282,002	539,438	215,190	208,464	65,231	247,955	1,558,280	(1,624,353)	66,073	(1,558,280)	-
Total operating expenses	<u>\$ 1,603,745</u>	<u>\$ 3,067,785</u>	<u>\$ 1,223,785</u>	<u>\$ 1,185,536</u>	<u>\$ 370,971</u>	<u>\$ 1,410,124</u>	<u>\$ 8,861,946</u>	<u>\$ -</u>	<u>\$ 375,758</u>	<u>\$ 375,758</u>	<u>\$ 9,237,704</u>

THE HOUSING PARTNERSHIP NETWORK, INC. AND AFFILIATES

Notes to Combined Financial Statements
December 31, 2017 and 2016

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), for the temporary acquisition of an affordable housing property. All activities of HPV Holdings are included within HPV, which has elected to be disregarded as a separate entity from HPV for tax purposes. HPV Holdings held no property at December 31, 2017 or 2016.

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 in 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 our 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.

THE HOUSING PARTNERSHIP NETWORK, INC. AND AFFILIATES

Notes to Combined Financial Statements
December 31, 2017 and 2016

1. OPERATIONS AND NONPROFIT STATUS (Continued)

Capital Markets

The Network's capital markets includes raising 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.

Platform Services

The Network provides platform services to our business lines and in support of its social enterprise development to 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).

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 Massachusetts' banks. The Federal Deposit Insurance Corporation (FDIC) insures balances at each bank 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 banks and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

THE HOUSING PARTNERSHIP NETWORK, INC. AND AFFILIATES

Notes to Combined Financial Statements
December 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. There was no allowance for doubtful accounts as of December 31, 2017 and 2016.

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.

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.

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 Loan Fund expects the borrower to perform under the revised terms of the restructuring.

There have been no loan modifications classified as a TDR or any impaired loans as of December 31, 2017 and 2016.

THE HOUSING PARTNERSHIP NETWORK, INC. AND AFFILIATES

Notes to Combined Financial Statements
December 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 on 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 certain criteria.

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 carried on the equity method, the Network records its share of income (loss) of affiliates as operating revenue in the accompanying combined statements of unrestricted activities for investments in affiliates with stabilized operations and an expectation of current dividends. The Network records its share of income (loss) of affiliates in formation or start-up as part of non-operating revenues (expenses).

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 2017 and 2016.

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	2017	2016
Furniture and equipment	3 - 5 years	\$ 419,493	\$ 400,987
Leasehold improvements	Life of lease (see Note 7)	<u>209,933</u>	<u>270,776</u>
		629,426	671,763
Less - accumulated depreciation		<u>(480,173)</u>	<u>(472,909)</u>
Net property and equipment		<u>\$ 149,253</u>	<u>\$ 198,854</u>

THE HOUSING PARTNERSHIP NETWORK, INC. AND AFFILIATES

Notes to Combined Financial Statements
December 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

Unrestricted net assets 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 unrestricted net assets into the following categories:

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

Temporarily restricted net assets are unexpended financial resources restricted by donors as to the purpose or timing of expenditure. All temporarily restricted net assets as of December 31, 2017 and 2016, are purpose restricted for the following programs of the Network:

	<u>2017</u>	<u>2016</u>
Research and Development	\$ 3,534,361	\$ 1,121,295
Capital Markets	566,190	802,896
Multifamily Operations	234,093	253,687
Member Services	200,000	-
Counseling and Education	<u>100,000</u>	<u>-</u>
	<u>\$ 4,634,644</u>	<u>\$ 2,177,878</u>

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.

THE HOUSING PARTNERSHIP NETWORK, INC. AND AFFILIATES

Notes to Combined Financial Statements
December 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

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 Unrestricted Activities

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 unrestricted activities. All other revenue or expense is reported as non-operating.

Revenue Recognition

Revenues from interest on loans and investment income, management, membership and program service fees, loan fees, and other sources are recognized as unrestricted revenue as earned or when services are provided. Interest on loans is presented net of interest expense of \$166,664 and \$143,803 collected on behalf of loan participants (see Note 5) in 2017 and 2016, 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 below). Contract revenue received in advance of services being provided is recorded as deferred income in the accompanying combined statements of financial position.

Unrestricted contributions and grants are recognized as revenue upon receipt or as unconditionally pledged. Donor restricted grants and contributions with time or purpose restrictions are recognized as temporarily restricted net assets when received or unconditionally pledged. Temporarily restricted net assets are transferred to unrestricted net assets as such gifts are used in accordance with donor restrictions.

Revenue from the Network's share of income from affiliates is recorded based on the method used for each investment (see Note 3). For investments carried on the equity method, the Network records its share of income (loss) of affiliates as operating revenue in the accompanying combined statements of unrestricted activities for investments in affiliates with stabilized operations and an expectation of current dividends. The Network records its share of income (loss) of affiliates in formation or start-up as part of non-operating revenues (expenses).

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 \$96,287 and \$106,560 for the years ended December 31, 2017 and 2016, respectively, and are included in operating revenue in the accompanying combined statements of unrestricted activities and in communications expense in the accompanying combined statements of operating functional expenses.

THE HOUSING PARTNERSHIP NETWORK, INC. AND AFFILIATES

Notes to Combined Financial Statements
December 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 unrestricted activities. 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, 2017 and 2016, or on the combined statements of changes in its net assets for the years then ended.

During 2017 and 2016, the Network received grants of \$1,096,905 and \$750,000, respectively, from the Treasury's CDFI Fund for program expansion. These grants were reported as unrestricted operating revenue in 2017 and 2016. 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, 2017 and 2016.

As of December 31, 2017 and 2016, amounts due from the Treasury represented approximately 35% and 87%, respectively, of grants receivable. In addition, approximately 64% of the Network's grants receivable is due from one donor as of December 31, 2017.

As of December 31, 2017 and 2016, approximately 88% and 68% of the Network's accounts and contracts receivable are due from four and three payers, respectively.

Expense Allocation

Expenses related directly to a function are attributed to that function, while other expenses are allocated based upon management's cost allocation plan, which estimates the usage of such expenses by all functions.

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, 2017 and 2016. The Network's information returns are subject to examination by the Federal and state jurisdictions.

Subsequent Events

Subsequent events have been evaluated through May 7, 2018, 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 5 and 6).

THE HOUSING PARTNERSHIP NETWORK, INC. AND AFFILIATES

Notes to Combined Financial Statements
December 31, 2017 and 2016

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:

	<u>HPIEx</u>	<u>Framework</u>	<u>NCST</u>	<u>Sub CDEs</u>	<u>Total</u>
Net investment, December 31, 2015	\$ 1,318,726	\$ 353,786	\$ 200,000	\$ -	\$ 1,872,512
Additional cash investment	-	266,315	-	-	266,315
Distribution received	(100,000)	-	-	-	(100,000)
Share of income	<u>340,428</u>	<u>1,513,532</u>	<u>-</u>	<u>-</u>	<u>1,853,960</u>
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	<u>661,383</u>	<u>2,822,765</u>	<u>-</u>	<u>-</u>	<u>3,484,148</u>
Net investment, December 31, 2017	<u>\$ 2,070,537</u>	<u>\$ 3,831,398</u>	<u>\$ 200,000</u>	<u>\$ 3,000</u>	<u>\$ 6,104,935</u>

Housing Partnership Insurance Exchange

Housing Partnership Insurance Exchange (HPIEx) is a for-profit association captive insurance company organized as a reciprocal insurer, with HPN named the Attorney-in-Fact. 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 investments 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 50% of the seats on the Board of Directors of Framework. During 2012, HPN made an initial equity investment in Framework. HPN made cash contributions of \$125,000 and \$266,315 during 2017 and 2016, respectively. HPN also made grants to Framework totaling \$84,494 during 2016, which are included in awards to subrecipients in the accompanying combined statement of unrestricted activities for the year ended December 31, 2016. HPN did not make a grant award to Framework during 2017. HPN accounts for this investment using the equity method (see Note 2).

THE HOUSING PARTNERSHIP NETWORK, INC. AND AFFILIATES

Notes to Combined Financial Statements
December 31, 2017 and 2016

3. UNCOMBINED AFFILIATES (Continued)

HPN's Investments in Uncombined Affiliates (Continued)

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).

HPN NMTC I, LLC and HPN NMTC II, LLC

HPN applied for and received a New Markets Tax Credits (NMTC) allocation of \$40,000,000 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 two sub-CDEs, HPN NMTC I, LLC (SubCDE 1) and HPN NMTC II, LLC (SubCDE 2) (collectively, the SubCDEs), both 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.

During 2017, HPN made capital contributions of \$1,500 (each) to SubCDE 1 and SubCDE 2 in exchange for a 0.01% non-managing 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 \$750,000 (\$375,000 each) for its sub-allocation of NMTCs, which is included in program service fees in the accompanying combined statement of unrestricted activities for the year ended December 31, 2017. HPN has assigned \$30,000,000 of its \$40,000,000 NMTC allocation to the SubCDEs (\$15 million each).

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, 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 NMTC transaction.

THE HOUSING PARTNERSHIP NETWORK, INC. AND AFFILIATES

Notes to Combined Financial Statements
December 31, 2017 and 2016

3. UNCOMBINED AFFILIATES (Continued)

HPV's Investments in Uncombined Affiliates

HPV's investments in uncombined affiliates are as follows:

	<u>CSFP</u>	<u>HPET</u>	<u>HPN Select</u>	<u>Total</u>
Net investment, December 31, 2015	\$ 359,616	\$ 247,487	\$ 1,013,704	\$ 1,620,807
Additional cash investment	-	-	250,000	250,000
Distribution received	-	(26,940)	-	(26,940)
Share of income (loss)	<u>175,996</u>	<u>13,852</u>	<u>(634,265)</u>	<u>(444,015)</u>
Net investment, December 31, 2016	535,612	234,399	629,439	1,399,450
Distribution received	-	(25,048)	-	(25,048)
Share of income (loss)	<u>120,819</u>	<u>98,441</u>	<u>(294,616)</u>	<u>(75,356)</u>
Net investment, December 31, 2017	<u>\$ 656,431</u>	<u>\$ 307,792</u>	<u>\$ 334,823</u>	<u>\$ 1,299,046</u>

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 a 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 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). During 2012, HPV made a \$400,000 equity investment in HPET to support its acquisition, financing, operation, and disposition of existing multifamily real estate. HPV votes for the election of HPET's Board of Directors as a part owner. HPET distributed \$25,048 and \$26,940 in dividends to HPV in 2017 and 2016, respectively. HPV accounts for its investment in HPET using the equity method (see Note 2).

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 May 2018.

THE HOUSING PARTNERSHIP NETWORK, INC. AND AFFILIATES

Notes to Combined Financial Statements
December 31, 2017 and 2016

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 in order to provide group procurement services to its members throughout the United States. HPV has committed to make 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. HPV accounts for its investment in HPN Select using the equity method (see Note 2). HPV recorded its share of losses of \$294,616, and \$279,226 for 2017 and 2016, respectively, on its investments in HPN Select. HPV's share of loss for 2016 was also increased by \$355,039 to reflect a reduction in the carrying value of its investment in excess of its capital account of HPN Select. The losses resulted from HPN Select's start-up activities and are expected to be recovered when HPN Select achieves profitability in future years.

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).

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:

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	\$ 8,544,277	\$ 707,183	\$ 7,837,094	\$ 9,555,200	\$ 3,909,670
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
2016					
Entity	Total Assets	Total Liabilities	Total Equity	Total Revenue	Total Expenses
HPIEx	\$ 39,899,712	\$ 21,095,428	\$ 18,804,284	\$ 21,588,288	\$ 17,435,971
Framework	\$ 5,198,806	\$ 757,242	\$ 4,441,564	\$ 5,520,269	\$ 2,493,601
CSFP	\$ 17,666,660	\$ 3,985,841	\$ 13,680,819	\$ 512,871	\$ 140,675
HPET	\$ 60,726,994	\$ 12,190,932	\$ 48,536,062	\$ 544,035	\$ 3,180,540
HPN Select	\$ 2,214,176	\$ 360,871	\$ 1,853,305	\$ 626,130	\$ 2,028,695

THE HOUSING PARTNERSHIP NETWORK, INC. AND AFFILIATES

Notes to Combined Financial Statements
December 31, 2017 and 2016

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 a financial 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 \$21,088,999 as of December 31, 2017 and 2016. The loans were funded with grant proceeds HPF received from a donor to support the neighborhood stabilization program of CRC, of which \$10,085,454 was received in 2016.

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 amount for the mortgage loans that have not been resolved. Thereafter, on each March 31st and September 30th until maturity, the member shall 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.

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, HPF has reserved the entire principal balance of the loans at December 31, 2017 and 2016.

For the notes receivable noted above, HPF has a side agreement with NCST, where upon receipt of any principal, HPF will distribute 50% to NCST.

During 2017, CRC 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 unrestricted activities.

THE HOUSING PARTNERSHIP NETWORK, INC. AND AFFILIATES

Notes to Combined Financial Statements
December 31, 2017 and 2016

3. UNCOMBINED AFFILIATES (Continued)

Relationships with Other Uncombined Affiliates

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).

During 2016, Develop Detroit has entered into a facility loan agreement with HPF to borrow up to \$6,000,000 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 April 2018. 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, 2017 and 2016, the facility loan has an outstanding balance totaling \$2,789,415 and \$1,589,415, 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. The carrying value of these assets at December 31, 2017 and 2016, is summarized as follows:

	<u>2017</u>	<u>2016</u>
Interest and project reserve	\$ 468,107	\$ 287,470
Loan fund reserve	368,461	-
Loan escrows	-	555,556
Escrow guaranty fund	-	<u>88,889</u>
Total restricted deposits	<u>\$ 836,568</u>	<u>\$ 931,915</u>

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 being 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 \$402,813 and \$287,470 at December 31, 2017 and 2016, 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.

Loan Fund Reserve

During 2017, HPF made a \$735,000 grant to HPV to be used to fund a loan to HPN Select (see Note 3). As of December 31, 2017, the portion of the grant proceeds advanced under the loan to HPN Select totaled \$366,539. The remaining funds totaling \$368,461 are to be used for making the remaining advances to HPN Select.

THE HOUSING PARTNERSHIP NETWORK, INC. AND AFFILIATES

Notes to Combined Financial Statements
December 31, 2017 and 2016

4. RESTRICTED DEPOSITS (Continued)

Loan Escrows

Pursuant to certain participation loan agreements, HPF set aside amounts in a loan escrow to reimburse the participant for potential loan losses. These amounts were offset by a loan escrows liability in the accompanying combined statement of financial position as of December 31, 2016. During 2017, the participation loan agreements for which these proceeds were set aside matured and the requirement to maintain this loan escrow terminated.

Escrow Guaranty Fund

Pursuant to a loan participation agreement (see Note 5) with Stabilization Trust REO Capital Fund LLC (the Participant), an affiliate of NCST (see Note 3), an escrow guaranty fund was established by HPF to reimburse the Participant for potential losses up to 2% of the aggregate original principal balances of the loan. The loan in which the Participant participated was repaid in 2017 and, as a result, HPF is no longer required to maintain a balance in this account.

5. LOANS RECEIVABLE

HPN

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

	<u>2017</u>	<u>2016</u>
Real estate purchase and development loans to four members, bearing interest at rates varying between 3.75% and 5.50% 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.	\$ 3,250,000	\$ 2,350,000
\$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, which expired in April 2017. The maturity date was extended to March 1, 2018, at which time HPN granted another extension through June 2021 (see page 23). The line of credit is unsecured.	2,272,727	2,272,727
HPF entered into an unsecured, non-interest bearing loan agreement with HPN which was set to expire in June 2017. HPN extended the terms of this agreement to June 30, 2022. This loan is eliminated in the accompanying combined statements of financial position.	<u>1,250,000</u>	<u>1,250,000</u>
	6,772,727	5,872,727
Less - allowance for loan losses	<u>(113,750)</u>	<u>(82,250)</u>
	6,658,977	5,790,477
Less - current portion (net of allowance)	<u>(2,583,864)</u>	<u>(820,250)</u>
Total HPN long-term portion	<u>\$ 4,075,113</u>	<u>\$ 4,970,227</u>

THE HOUSING PARTNERSHIP NETWORK, INC. AND AFFILIATES

Notes to Combined Financial Statements
December 31, 2017 and 2016

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:

	<u>2017</u>	<u>2016</u>
Real estate purchase and development loans to fourteen and eight members, respectively, bearing interest at rates between 4.75% and 6.25%, and maturing at various dates through December 2021. 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.	\$ 14,162,664	\$ 9,085,568
HPF has unsecured lines of credit agreements with one and two members totaling \$3,250,000 and \$3,193,491 as of December 31, 2017 and 2016, respectively. The balances of these lines of credit are net of third party participations which totaled \$1,625,000 and \$1,943,491 at December 31, 2017 and 2016, respectively. The line of credit outstanding at December 31, 2017, expires in January 2019.	1,625,000	1,250,000
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
\$650,000 loan agreement with a member for closing and related costs to secure permanent financing for a development project, bearing interest at 6.10% annually. This note matured on May 29, 2017, at which time all outstanding principal and accrued interest were repaid. The loan was secured by various properties held by the borrower.	-	555,556
	<u>16,207,664</u>	<u>11,311,124</u>
Less - allowance for loan losses	<u>(503,876)</u>	<u>(839,164)</u>
	15,703,788	10,471,960
Less - current portion (net of allowance)	<u>(1,466,335)</u>	<u>(536,112)</u>
Total HPF long-term portion	<u>\$ 14,237,453</u>	<u>\$ 9,935,848</u>

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 \$366,539 at December 31, 2017, and is included in long-term loans receivable in the accompanying combined statement of financial position as of December 31, 2017.

THE HOUSING PARTNERSHIP NETWORK, INC. AND AFFILIATES

Notes to Combined Financial Statements
December 31, 2017 and 2016

5. LOANS RECEIVABLE (Continued)

Loan Commitments

HPF

In 2017, HPF has committed to provide six loans to members totaling \$10,750,000, of which five of these loans with an aggregate principal balance of \$8,000,000 closed in early 2018. The loans bear interest at 5% - 5.5% and mature at various dates through March 2021. In connection with these loans, HPF has entered into participation agreements, whereby HPF sold a portion of the outstanding loan balances totaling \$1,750,000. The participation agreements have interest rates and maturity dates that are similar to the underlying agreements between HPF and the members. HPF intends to enter into additional participation agreements, whereby an additional \$1,750,000 of the committed loan funds will be sold. HPF expects that it will advance the remaining committed loan funds and enter into the additional participation agreements in 2018.

In addition, in April 2018, HPF entered into a participation agreement for \$680,000, which represents approximately 9.52% of a loan with aggregate borrowings of \$7,140,000. The outstanding principal purchased by HPF bears interest of 7.03% and matures in April 2021.

HPN

In March 2018, HPN extended the maturity date of its line of credit agreement with HPET REIT I (see Note 3) to June 1, 2021. In addition, HPF modified the repayment terms, whereby \$1,136,364 of the outstanding principal is due on June 1, 2018, and the remaining balance is due on June 1, 2019, June 1, 2020 and June 1, 2021, in amounts totaling \$500,000, \$500,000 and \$136,363, respectively.

In March 2018, one of HPN's loans receivable with an outstanding principal balance of \$1,000,000 was repaid. The borrower repaid the outstanding principal to HPN using proceeds of a newly executed loan agreement with HPF for borrowings up to \$3 million (see above).

Schedule of Repayments

Scheduled principal repayments of gross loans receivable, net of amounts owed to participants as of December 31, 2017, are as follows:

<u>Year</u>	<u>HPN</u>	<u>HPF</u>	<u>HPV</u>	<u>Eliminations</u>	<u>Total</u>
2018	\$ 2,636,364	\$ 1,500,148	\$ -	\$ -	\$ 4,136,612
2019	\$ 500,000	\$ 6,787,516	\$ -	\$ -	\$ 7,287,516
2020	\$ 1,250,000	\$ 16,503,545	\$ -	\$ -	\$ 17,753,545
2021	\$ 136,363	\$ 12,085,454	\$ -	\$ -	\$ 12,221,817
2022	\$ 2,250,000	\$ -	\$ 366,539	\$ (1,250,000)	\$ 1,366,539
Thereafter	\$ -	\$ 420,000	\$ -	\$ -	\$ 420,000

THE HOUSING PARTNERSHIP NETWORK, INC. AND AFFILIATES

Notes to Combined Financial Statements
December 31, 2017 and 2016

5. LOANS RECEIVABLE (Continued)

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. Loan loss recoveries are recognized when payments are received on previously reserved loans. The loan loss allowance, which has been allocated proportionally to the long-term and current portions of the portfolio, consists of the following:

	<u>HPN</u>	<u>HPF</u>	<u>HPF</u>	<u>Total</u>
Balance, December 31, 2015	\$ 82,250	\$ 168,111	\$ -	\$ 250,361
Loan loss provision	<u>-</u>	<u>671,053</u>	<u>-</u>	<u>671,053</u>
Balance, December 31, 2016	82,250	839,164	-	921,414
Loan loss provision (recovery)	<u>31,500</u>	<u>(335,288)</u>	<u>-</u>	<u>(303,788)</u>
Balance, December 31, 2017	<u>\$ 113,750</u>	<u>\$ 503,876</u>	<u>\$ -</u>	<u>\$ 617,626</u>

6. LONG-TERM DEBT

HPN

Equity Equivalent Loans Payable

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.

The \$1,000,000 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 \$187,500 quarterly principal plus interest payments are due through maturity.

Other Loans Payable

HPN has an unsecured loan payable to Opportunity Finance Network in the amount of \$2,272,727 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, 2023 (maturity).

HPN also has an unsecured note payable to the Calvert Social Investment Foundation, Inc. (Calvert). The interest rate on this loan is set by Calvert annually for the coming year. The interest rate during 2017 and 2016 was 4.5% and the interest rate set by Calvert for 2018 is 4.5%. The balance of this note at December 31, 2017 and 2016, was \$2,000,000. During 2017, Calvert extended the maturity date to June 2018.

THE HOUSING PARTNERSHIP NETWORK, INC. AND AFFILIATES

Notes to Combined Financial Statements
December 31, 2017 and 2016

6. LONG-TERM DEBT (Continued)

HPF

Equity Equivalent Loans Payable

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, 2017 and 2016:

KeyBank National Association (KeyBank)	\$ 500,000
U.S. Bancorp Community Development Corporation (U.S. Bank)	<u>500,000</u>
Total	<u>\$ 1,000,000</u>

Interest on the KeyBank and U.S. Bank equity equivalent loans is 2% and 3%, respectively. The U.S. Bank note was set to mature on February 22, 2018, at which time U.S. Bank extended the terms of this agreement to February 22, 2019. The KeyBank note matures on June 29, 2024, and contains extension provisions if HPF satisfactorily performs its obligations under the related note agreements. Both loans are unsecured.

Other Loans Payable

HPF has an unsecured loan payable to CommonBond Communities, a member of HPN, in the amount of \$420,000. 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).

HPF has an unsecured loan payable agreement with Charles Schwab for borrowings up to \$10,000,000. This note is due in quarterly interest-only payments equal to the greater of the three-month London Interbank Offered Rate (LIBOR) plus 2.75% or 3.00%. All outstanding principal and accrued interest are due at maturity. This loan was set to mature in December 2017, at which time the terms of the agreement were extended, under similar terms, through December 2020. The balance outstanding on this loan at December 31, 2017 and 2016, was \$10,000,000 and \$5,600,000, respectively.

HPF has an unsecured, non-interest bearing loan payable to HPN which matures on June 2022. HPF can borrow up to \$1,250,000 at any point under this loan agreement. The balance at December 31, 2017 and 2016, was \$1,250,000. This loan has been eliminated from the accompanying combined statements of financial position.

HPF has an unsecured loan payable to Capital One Bank for the purpose of providing permanent working capital to support community development lending. The loan bears interest at a rate of 2% per annum. The loan matures in November 2019, at which time the entire principal amount and all accrued interest are due. The balance at December 31, 2017 and 2016, was \$1,000,000.

HPF has entered into a \$3,000,000 loan agreement with the Kresge Foundation for the purpose of funding member loans. The loan bears interest at a rate of 2% per annum. The loan matures on the tenth anniversary of the initial disbursement of the loan. The loan is interest only 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 date. As of December 31, 2017, no draws have been made on this loan.

THE HOUSING PARTNERSHIP NETWORK, INC. AND AFFILIATES

Notes to Combined Financial Statements
December 31, 2017 and 2016

6. LONG-TERM DEBT (Continued)

Other Loans Payable (Continued)

Maturities of Long-Term Debt

Maturities of all long-term debt as of December 31, 2017, are as follows:

<u>Year</u>	<u>Equity Equivalent Loans</u>	<u>Other Loans</u>	<u>Eliminations</u>	<u>Total</u>
2018	\$ -	\$ 2,000,000	\$ -	\$ 2,000,000
2019	\$ 500,000	\$ 1,000,000	\$ -	\$ 1,500,000
2020	\$ 1,000,000	\$ 10,000,000	\$ -	\$ 11,000,000
2021	\$ -	\$ -	\$ -	\$ -
2022	\$ -	\$ 1,250,000	\$ (1,250,000)	\$ -
Thereafter	\$ 2,000,000	\$ 2,692,727	\$ -	\$ 4,692,727

The Network has financial and non-financial covenants which they must comply. As of December 31, 2017 and 2016, the Network was in compliance with these covenants.

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 \$62,962 and \$76,668 as of December 31, 2017 and 2016, respectively, and is included in accrued expenses in the accompanying combined statements of financial position.

HPN 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 \$395,125 and \$395,978 for 2017 and 2016, respectively, and is included in occupancy in the accompanying combined statements of operating functional expenses. The Network also leases equipment under agreements expiring through February 2019.

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

	<u>Facility</u>	<u>Equipment</u>
2018	\$ 405,959	\$ 18,904
2019	417,147	3,151
2020	<u>114,081</u>	<u>-</u>
Total	<u>\$ 937,187</u>	<u>\$ 20,055</u>

THE HOUSING PARTNERSHIP NETWORK, INC. AND AFFILIATES

Notes to Combined Financial Statements
December 31, 2017 and 2016

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:

	<u>2017</u>	<u>2016</u>
Combined Affiliates:		
HPF	\$ 250,000	\$ 250,000
Uncombined Affiliates (see Note 3):		
Framework	1,823,077	1,091,344
HPIEx	921,852	717,516
Develop Detroit	597,647	250,390
HPET	439,467	430,841
HPN Select	307,213	293,564
CSFP	<u>73,247</u>	<u>66,588</u>
	4,412,503	3,100,243
Incentive management fees - Develop Detroit (see Note 3)	<u>110,672</u>	<u>250,000</u>
Total management fees	4,523,175	3,350,243
Less - eliminations	<u>(250,000)</u>	<u>(250,000)</u>
Total management fees, net of eliminations	<u>\$ 4,273,175</u>	<u>\$ 3,100,243</u>

In December 2017, HPET and HPN entered into a termination agreement whereby HPET agreed to pay HPN \$600,000, payable in quarterly installments of \$37,500 beginning in 2018 through 2021. This fee is reflected as termination fee in the accompanying 2017 combined statement of unrestricted activities.

Other Fees

Other fees, including program and placement fees, earned by HPN from related parties are included in program service fees in the accompanying combined statements of unrestricted activities and are as follows:

	<u>2017</u>	<u>2016</u>
Uncombined Affiliates:		
HPET	\$ 210,000	\$ 300,000
SubCDE 1 (see Note 3)	31,250	-
SubCDE 2 (see Note 3)	17,857	-
CRC	<u>-</u>	<u>255,750</u>
Total other fees	<u>\$ 259,107</u>	<u>\$ 555,750</u>

In December 2017, HPN and HPET entered into an agreement whereby HPET engaged HPN to perform certain services including raising capital, planning and coordinating meetings with members, and sharing of office space. This agreement has a maturity date of December 31, 2019, and an option to be renewed annually. HPN's compensation under this agreement is \$315,841 annually.

THE HOUSING PARTNERSHIP NETWORK, INC. AND AFFILIATES

Notes to Combined Financial Statements
December 31, 2017 and 2016

8. OTHER RELATED PARTY TRANSACTIONS (Continued)

Receivables

Amounts owed to HPN for management, incentive management, interest, and loan services are included in accounts and contracts receivable in the accompanying combined financial statements and are as follows as of December 31:

	<u>2017</u>	<u>2016</u>
Uncombined Affiliates:		
Develop Detroit	\$ 909,944	\$ 144,035
HPET	712,943	55,859
HPN Select	431,171	119,643
Framework	334,227	483,165
CSFP	27,600	48,638
HPIEx	<u>-</u>	<u>25,000</u>
Total	<u>\$ 2,415,885</u>	<u>\$ 876,340</u>

HPN was owed \$250,000 from HPF as of December 31, 2017 and 2016, for management fees. These amounts have been eliminated in the accompanying combined statements of financial position.

9. PENSION 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 \$466,171 and \$386,137 for 2017 and 2016, 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, 2017 and 2016, are due as follows:

	<u>2017</u>	<u>2016</u>
Amounts due:		
Within one year	\$ 2,135,129	\$ 863,792
Within two years	<u>1,000,000</u>	<u>-</u>
	3,135,129	863,792
Less - current portion	<u>2,135,129</u>	<u>863,792</u>
	<u>\$ 1,000,000</u>	<u>\$ -</u>

These amounts are not discounted to present value as discounts would be immaterial.

11. RECLASSIFICATION

Certain amounts in the 2016 combined financial statements have been reclassified to conform with the 2017 presentation.