TIDWELL group

RURAL NEIGHBORHOODS, INC. AND ITS AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS
(WITH SUPPLEMENTAL INFORMATION)
AND INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2017 AND 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rural Neighborhoods, Inc. and Its Affiliates

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Rural Neighborhoods, Inc. (a nonprofit organization) and Its Affiliates, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rural Neighborhoods, Inc. and Its Affiliates, as of December 31, 2017 and 2016, and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplemental information on pages 51 through 59 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The accompanying other information on page 67 has not been subject to auditing procedures applied in the audits of the consolidated financial statements, and accordingly, we do not express any opinion or provide any assurance on it.

Other Reporting Requirements Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2018, on our consideration of Rural Neighborhoods, Inc. and Its Affiliates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rural Neighborhoods, Inc. and Its Affiliates' internal control over financial reporting and compliance.

Tidwell Group, LLC

Atlanta, Georgia
May 25, 2018

Rural Neighborhoods, Inc. and Its Affiliates

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

ASSETS

	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	$ 5,654,897	$ 5,583,951
Accounts receivable - tenants	47,935	43,060
Rental assistance receivables	245,905	252,841
Miscellaneous receivables	293,758	67,359
Grant receivables	-	453,785
Due from affiliates	10,185	1,833
Prepaid expenses	400,002	354,525
Total current assets	6,652,682	6,757,354
RESTRICTED DEPOSITS AND FUNDED RESERVES		
Tenant security deposits	667,307	647,011
Mortgage escrows	715,582	662,048
Replacement reserve	3,480,168	4,415,527
Debt Service reserve	1,132,388	998,314
Operating reserve	1,015,956	1,049,484
Other reserves and deposits	490,637	520,237
Total restricted deposits and funded reserves	7,502,038	8,292,621
PROPERTY AND EQUIPMENT		
Land	10,402,441	10,402,441
Land improvements	9,524,935	9,496,465
Buildings and improvements	148,218,927	147,475,133
Furniture and equipment	4,719,978	4,720,964
Construction in progress	6,949,325	3,014,340
Total property and equipment	179,815,606	175,109,343
Less accumulated depreciation	(49,615,037)	(44,948,623)
Total net property and equipment	130,200,569	130,160,720
OTHER ASSETS		
Tax credit monitoring fees, net	158,849	191,988
Other assets	19,762	16,534
Total other assets	178,611	208,522
Total assets	$ 144,533,900	$ 145,419,217

(continued)

Rural Neighborhoods, Inc. and Its Affiliates

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - CONTINUED

December 31, 2017 and 2016

LIABILITIES AND NET ASSETS

	2017	2016
CURRENT LIABILITIES		
Accounts payable	$ 482,091	$ 323,920
Accrued expenses	598,356	518,230
Accrued interest payable	534,696	508,694
Construction costs payable	590	255,868
Current portion of mortgages payable	7,040,146	4,342,305
Total current liabilities	8,655,879	5,949,017
DEPOSITS AND PREPAID LIABILITY		
Tenant security deposits	667,349	647,011
Prepaid rent	91,652	67,758
Total deposits and prepaid liability	759,001	714,769
LONG-TERM LIABILITIES		
Developer fee payable	1,591,672	1,595,729
Deferred revenue	6,684,048	5,729,184
Mortgages payable, net of current portion	64,615,616	66,562,253
Total long-term liabilities	72,892,867	73,887,166
NET ASSETS		
Permanently restricted net assets	716,534	1,016,534
Unrestricted - non-controlling interest	18,439,340	19,123,239
Unrestricted - controlling interest	43,070,279	44,728,492
Unrestricted net assets	61,509,619	63,851,731
Total net assets	62,226,153	64,868,265
Total liabilities and net assets	$ 144,533,900	$ 145,419,217

See notes to consolidated financial statements.

Rural Neighborhoods, Inc. and Its Affiliates

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended December 31, 2017

	Unrestricted	Permanently Restricted	Total
RENTAL REVENUE			
Potential rental revenue	$ 12,026,459	$ -	$ 12,026,459
Less vacancies and concessions	(776,853)	-	(776,853)
Total rental revenue	11,249,606	-	11,249,606
OTHER REVENUE			
Application fees	52,472	-	52,472
Laundry and vending	205,137	-	205,137
Interest income	38,554	-	38,554
Tenant charges	211,398	-	211,398
Property management fees	36,000	-	36,000
Income from forgiveness of debt	572,919	-	572,919
Grant revenue	957,027	-	957,027
Miscellaneous revenue	303,800	-	303,800
Total other revenue	2,377,307	-	2,377,307
EXPENSES			
Operating and maintenance	4,222,932	-	4,222,932
Utilities	1,217,733	-	1,217,733
Project administration expenses	3,791,683	-	3,791,683
Management fees	188,646	-	188,646
Taxes and insurance	1,337,461	-	1,337,461
Bad debt expense	30,138	-	30,138
Total expenses	10,788,593	-	10,788,593
Income from operations	2,838,320	-	2,838,320
NON-OPERATING EXPENSES (INCOME)			
Interest on deferred developer fee	42,447	-	42,447
Interest on mortgages payable	663,827	-	663,827
Investor services management fee	6,524	-	6,524
Legal settlement income	-	-	-
Depreciation expense	4,688,879	-	4,688,879
Amortization expense	33,139	-	33,139
Total non-operating expenses	5,434,816	-	5,434,816
Change in net assets before non-controlling interest	(2,596,496)	-	(2,596,496)
Non-controlling interest in earnings of subsidiaries	638,283	-	638,283
Change in net assets attributable to Rural Neighborhoods, Inc.	$ (1,958,213)	$ -	$ (1,958,213)

See notes to consolidated financial statements.

Rural Neighborhoods, Inc. and Its Affiliates

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended December 31, 2016

	Unrestricted	Permanently Restricted	Total
RENTAL REVENUE			
Potential rental revenue	$ 11,037,007	$ -	$ 11,037,007
Less vacancies and concessions	(701,245)	-	(701,245)
Total rental revenue	10,335,762	-	10,335,762
OTHER REVENUE			
Application fees	41,796	-	41,796
Laundry and vending	200,910	-	200,910
Interest income	49,650	-	49,650
Tenant charges	219,842	-	219,842
Property management fees	36,000	-	36,000
Income from forgiveness of debt	572,919	-	572,919
Grant revenue	1,909,142	241,534	2,150,676
Miscellaneous revenue	585,188	-	585,188
Total other revenue	3,615,447	241,534	3,856,981
EXPENSES			
Operating and maintenance	3,181,351	-	3,181,351
Utilities	1,098,363	-	1,098,363
Project administration expenses	3,215,530	-	3,215,530
Management fees	181,445	-	181,445
Taxes and insurance	1,274,949	-	1,274,949
Bad debt expense	95,093	-	95,093
Total expenses	9,046,731	-	9,046,731
Income from operations	4,904,478	241,534	5,146,012
NON-OPERATING EXPENSES (INCOME)			
Interest on deferred developer fee	40,707	-	40,707
Interest on mortgages payable	669,460	-	669,460
Investor services management fee	6,334	-	6,334
Miscellaneous income	-	-	-
Legal settlement income	(99,166)	-	(99,166)
Depreciation expense	4,549,553	-	4,549,553
Amortization expense	33,137	-	33,137
Total non-operating expenses	5,200,025	-	5,200,025
Change in net assets before non-controlling interest	(295,547)	241,534	(54,013)
Non-controlling interest in earnings of subsidiaries	576,805	-	576,805
Change in net assets attributable to Rural Neighborhoods, Inc.	$ 281,258	$ 241,534	$ 522,792

See notes to consolidated financial statements.

Rural Neighborhoods, Inc. and Its Affiliates

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years Ended December 31, 2017 and 2016

	Unrestricted Net Assets				
	Controlling Interest	Non-controlling Interest	Total	Permanently Restricted Net Assets	Total Net Assets
Net assets - unrestricted, December 31, 2015	$ 44,356,704	$ 19,751,521	$ 64,108,225	$ 865,530	$ 64,973,755
Distributions	-	(51,477)	(51,477)	-	(51,477)
Restricted net assets released to unrestricted net assets	-	-	-	(90,530)	(90,530)
Change in net assets	371,788	(576,805)	(205,017)	241,534	36,517
Net assets - unrestricted, December 31, 2016	44,728,492	19,123,239	63,851,731	1,016,534	64,868,265
Distributions	-	(45,616)	(45,616)	-	(45,616)
Restricted net assets released to unrestricted net assets	-	-	-	(300,000)	(300,000)
Change in net assets	(1,658,213)	(638,283)	(2,296,496)	-	(2,296,496)
Net assets - unrestricted, December 31, 2017	$ 43,070,279	$ 18,439,340	$ 61,509,619	$ 716,534	$ 62,226,153

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	$ (2,596,496)	$ (54,013)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	4,688,879	4,549,553
Amortization	33,139	33,137
Amortization of debt issuance costs	77,658	66,655
Gain on disposal of fixed assets	(2,700)	(17,048)
Gain on donated land	-	(283,284)
Deferred revenue - loan forgiveness	(572,919)	(572,919)
Changes in:		
Tenant accounts receivable	(4,875)	15,321
Rental assistance receivable	6,936	24,461
Miscellaneous receivables	(226,399)	(50,619)
Grant receivables	453,785	68,317
Prepaid expenses	(45,477)	(35,375)
Accounts payable	158,171	52,998
Accrued expenses	80,126	85,136
Accrued interest payable	26,002	50,397
Accrued investor services management fee	-	(6,149)
Deposits to mortgage escrows, net	(53,534)	62,365
Due to/from affiliates	(6,821)	45,696
Deferred developer fee payable	(4,057)	40,707
Other assets	(3,228)	(16,534)
Prepaid rents	23,894	4,887
Net cash provided by operating activities	2,032,084	4,063,689
Cash flows from investing activities		
Investment in rental property	(4,726,886)	(4,887,349)
Proceeds from sale of fixed assets	900	3,000
Deposits to replacement reserves, net	935,359	867,926
Deposits to debt service reserves, net	(134,074)	(133,852)
Deposits to operating reserve, net	33,528	(42,681)
Construction costs payable	(255,278)	(146,970)
Other reserves and deposits	29,600	(195,503)
Net cash used in investing activities	(4,116,851)	(4,535,429)

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Rural Neighborhoods, Inc. and Its Affiliates

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from financing activities		
Proceeds from mortgages and notes payable	$ 3,317,741	$ 2,759,258
Principal payments on mortgage notes	(1,116,412)	(1,162,254)
Notes receivable - affiliates	-	30,000
Non-controlling interest distributions	(45,616)	(51,477)
Financing costs paid	-	(122,625)
Net cash provided by financing activities	2,155,713	1,452,902
Net increase (decrease) in cash	70,946	981,162
Cash and cash equivalents, beginning	5,583,951	4,602,789
Cash and cash equivalents, ending	$ 5,654,897	$ 5,583,951
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of capitalized interest of $54,069 and $3,055, respectively	$ 560,167	$ 552,408
Supplemental schedule of non-cash investing and financing activities:		
Acquisition of rental property	$ -	$ (526,648)
Disposal of fixed assets	20,665	38,452
Write-off of accumulated depreciation	(20,665)	(38,452)
Forgiveness of TCEP loan	(1,527,783)	(1,527,783)
Deferred revenue - loan forgiveness	1,527,783	1,527,783
Assumption of debt	-	526,648
	$ -	$ -

See notes to consolidated financial statements.

NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS

Organization

Rural Neighborhoods, Inc. (RNI) is a Florida nonprofit corporation formed on December 23, 2004 for the purpose of planning, acquiring land, producing, developing and managing construction of projects and sites remaining in the Everglades Farmworker Village parcels and elsewhere. On December 31, 2004, Everglades Community Association, Inc. (ECA) transferred its unrestricted assets and liabilities to RNI to enable it to carry out the above tasks excluding any and all U.S. Department of Agriculture (USDA) restricted assets and liabilities associated with Everglades Farmworker Village.

Consolidation

The accompanying consolidated financial statements include the accounts of RNI and its affiliates (collectively, the Corporation). All significant intercompany accounts and transactions have been eliminated in this consolidation.

Investment in Subsidiaries

Beginning January 1, 2006, the Corporation adopted the Accounting Standards Codification Topic 958-810 (ASC Topic 958-810), which provides guidance as to when a general partner controls a limited partnership and is required to include the assets, liabilities and activities of a limited partnership in its consolidated financial statements.

Under ASC Topic 958-810, a general partner in a limited partnership or similar entity would be presumed to control that entity and would therefore be required to consolidate the entity unless the limited partners possessed certain rights, principally kick-out rights or significant participation rights. ASC Topic 958-810 applies to entities that are not considered variable interest entities. Management believes that ECA and Big Cypress Housing Corporation (BCHC) effectively have control of certain limited partnerships and these partnerships were consolidated in the separately issued consolidated financial statements of ECA and BCHC.

ECA is a Florida nonprofit corporation formed on July 21, 1982 for the purpose of planning, producing, developing and managing the construction of projects related to providing low cost housing to migrant and seasonal farm workers in Florida. ECA is a controlled corporation of RNI.

ECA includes the following programs and services:

> Everglades Farmworker Village (EFV) is a rental operation of ECA and consists of a USDA Rural Development 514/516 farm labor housing complex as described in USDA Handbook 2-3560, Section 2.6. Currently, there are 466 units rented to eligible tenants as defined in the regulations. The USDA also provides rental assistance to tenants based on a formula described in Chapter 8 of the USDA Handbook 2-3560.

Phase V (Phase V) is an additional phase of EFV that is currently under development. When constructed, Phase V will consist of 14 units that will be rented to income eligible migrant and seasonal farm workers as defined by the State of Florida and the USDA. The project was funded by the USDA and is subject to USDA oversight and regulations.

Phase VI (Phase VI) is an additional phase of EFV that is currently under development. When constructed, Phase VI will consist of 10 units that will be rented to income eligible migrant and seasonal farm workers as defined by the State of Florida and the USDA. The project was funded by the USDA and is subject to USDA oversight and regulations.

Everglades Rural Rental Housing (ERRH) is Phase III of EFV and consists of a USDA Rural Development 515 housing complex as described in USDA Handbook 2-3560, Section 2.3. Currently, there are 15 units rented to eligible tenants as defined in the regulations. The USDA also provides rental assistance to tenants based on a formula described in Chapter 8 of the USDA Handbook 2-3560.

Casa Cesar Chavez (CCC) is an additional phase of EFV and consists of a 28 unit, 144 bed, four building, townhome complex designed to house unaccompanied single workers. The units are rented to income eligible migrant and seasonal farm workers as defined by the State of Florida. This project was not constructed with USDA funds and is not subject to USDA oversight or regulation.

Everglades Migrant Housing (EMH) is an additional phase of EFV that consists of 30 units that are rented to income eligible migrant and seasonal farm workers as defined by the State of Florida and the USDA. The project is funded by the USDA and is subject to USDA oversight and regulations.

ECA also includes the activities of the following subsidiaries:

Live Oak Villas, LLC (LOVI), a wholly owned subsidiary of ECA, is a .01 percent general partner of Live Oak Villas, Ltd. (LOVI-LTD). LOVI-LTD is the owner of a 104 unit, low-income housing tax credit project located in St. Lucie County, Florida. LOVI accounts for its investment in LOVI-LTD in accordance with ASC Topic 958-810.

Live Oak Villas II, LLC (LOVII), a wholly owned subsidiary of ECA, is a .01 percent general partner of Live Oak Villas II, Ltd. (LOVII-LTD). LOVII-LTD is the owner of an 80 unit, low-income housing tax credit project located in St. Lucie County, Florida. LOVII accounts for its investment in LOVII-LTD in accordance with ASC Topic 958-810.

Pollywog Creek, LLC (PC) is a wholly owned subsidiary of ECA formed to develop a 64 unit, low-income rental housing community in LaBelle, Florida. The project was designed in three phases. During 2012, phase III was incorporated as a separate legal entity, Pollywog Creek Senior Housing, Incorporated (PCSH). In 2012, the assets and liabilities associated with phase III were transferred from ECA to PCSH. Phases I and II are USDA Rural Development 514/516 farm labor housing complexes subject to USDA Rural Development farm labor housing requirements and the regulations of the Florida Housing Finance Corporation (FHFC) State Apartment Incentive Loan (SAIL) Program. Phases I and II were placed in service on May 16, 2011.

Shannon's Crossing, LLC (SCL) is a wholly owned subsidiary of ECA. SCL is the sole member of Beneficial Oaks at Shannon's Crossing, LLC, which is the .01 percent general partner of Oaks at Shannon's Crossing, LP (OSC). OSC is the owner of a 100 unit, low-income housing tax credit project with farm worker set-aside in Okeechobee, Florida. SCL accounts for its investment in OSC in accordance with ASC Topic 958-810.

Everglades Supportive Housing, LLC (ESH) is a Florida limited liability company owned by ECA. Prior to 2009, ESH was co-owned by ECA and RNI. ESH is the owner of a four-unit housing project for homeless families in Collier County, Florida. The project is Phase II of the Eden Gardens Apartments (EGA) project and was placed in service on September 28, 2009. The project was constructed on land financed by the USDA but is not subject to 514/516 regulations.

BCHC is a Florida nonprofit corporation formed on January 5, 2001 for the purpose of general operations, construction, expansion or any other activity connected with providing low cost housing to migrant and seasonal farm workers in Collier County, Florida. BCHC is a controlled corporation of RNI.

BCHC includes the following programs and services:

Main Street Village (MSV) is a rental operation of BCHC and includes a 79 unit, USDA Rural Development 514/516 farm labor housing complex as described in the USDA Handbook 2-3560, Section 2.6. Units are rented to eligible tenants as defined in the regulations. The USDA also provides rental assistance to tenants based on a formula described in Chapter 8 of the USDA Handbook 2-3560. A maximum of 68 units may receive rental assistance at any one time.

Hatchers Preserve (HP) is a rental operation of BCHC and consists of 18 units that were all placed in service during the year ended December 31, 2016 and are being rented to income eligible tenants.

BCHC also includes the activities of the following subsidiaries:

Corkscrew Sanctuary, LLC (CSS), a wholly owned subsidiary of BCHC, is a .01 percent general partner of Eden Gardens Apartments, LP (EGALP), owner of a 51 unit, low-income housing tax credit project that is the first phase of the EGA project (Phase I). Phase I was placed in service on June 18, 2009. CSS accounts for its investment in EGALP in accordance with ASC Topic 958-810.

Eden Gardens II, LLC (EGII), a wholly owned subsidiary of BCHC, is the sole owner of a 37 unit, low-income housing project, for migrant and seasonal farm workers that is the third phase of the EGA project (Phase III). Phase III was placed in service on September 28, 2009 and its units are rented to low-income farm workers subject to USDA governance and regulations of the FHFC SAIL Program.

Little Manatee Housing Corporation (LMHC) is a Florida nonprofit corporation formed on November 15, 1999 for the purpose of general operations, construction, expansion or any other activity connected with providing low cost housing to migrant and seasonal farm workers in Hillsborough County, Florida. LMHC is a controlled corporation of RNI.

LMHC includes the following programs and services:

Manatee Village (MV) is the rental operations of LMHC and consists of the following:

The Family Units - a 62-unit USDA Rural Development 514/516 farm labor housing complex as described in the USDA Handbook 2-3560, Section 2.6. Units are rented to eligible tenants as defined in the regulations. The USDA also provides rental assistance to tenants based on a formula described in Chapter 8 of the USDA Handbook 2-3560. A maximum of 62 units may receive rental assistance at any one time.

The Dorm Units - a 16-unit Single Resident Occupancy rental complex consisting of 128 beds and one management unit. The administrative building associated with the Dorm Units contains the leasing office and maintenance operations space for the Project. The Dorm Units leases to unaccompanied, income-eligible migrant and seasonal farm workers as defined by Hillsborough County, the Federal Home Loan Bank of Atlanta and the Florida Department of Community Affairs.

Manatee Village Phase IV (MV4) - a 27-unit USDA Rural Development 514/516 farm labor housing complex subject to USDA Rural Development 514/516 farm labor housing requirements and the regulations of the FHFC SAIL Program. MV4 was placed in service on November 30, 2010.

PCSH is a Florida nonprofit corporation formed on March 22, 2012 for the purpose of providing elderly persons and handicapped persons with housing facilities and services. The project will be financed using a loan from the Department of Housing and Urban Development (HUD). The project was phase III of PC and is currently under development.

Everglades Hammock, Inc. is a Florida nonprofit corporation formed on July 12, 1999 for the purpose of general operations, construction, expansion or any other activity connected with providing low cost housing to migrant and seasonal farm workers and other minorities in Florida City, Florida and rural Miami-Dade County, Florida. In 2008, Everglades Hammock, Inc. changed its name to Everglades Housing Trust, Incorporated (EHT). EHT is a controlled corporation of RNI.

EHT includes the activities of the following subsidiaries:

Orchid Apartments, LLC (OA), a wholly owned subsidiary of EHT, is a 0.0067 percent general partner of Orchid Grove Apartments, Ltd. (OGA-LTD), owner of an 80 unit low-income housing project in Florida City, Florida. Construction of the project started in 2010; and the project was placed-in-service on December 29, 2010. Its units are rented in accordance with the rules and regulations of the FHFC tax credit exchange fund program. OA accounts for its investment in OGA-LTD in accordance with ASC Topic 958-810.

Cypress Cove, LLC (CC), a wholly owned subsidiary of EHT, is a 0.0067 percent general partner of Cypress Cove Apartments, Ltd. (CCA-LTD), owner of an 80 unit low-income housing project in Winter Haven, Florida. Construction of the project started in 2010; and the project was placed-in-service on December 23, 2010. Its units are rented in accordance with the rules and regulations of the FHFC tax credit exchange fund program. CC accounts for its investment in CCA-LTD in accordance with ASC Topic 958-810.

Oak Marsh, LLC (OM), a subsidiary wholly owned by EHT and was formed to help enable EHT to carry out its purpose. On October 25, 2016, OM acquired the assets of Immokalee Non-Profit Housing, Ltd., or Sanders Pines (SP), and Timber Ridge of Immokalee, Ltd. (TR).

Everglades Healthcare Residential, LLC (EHR), a subsidiary wholly owned by EHT, was formed to help enable EHT to carry out its purpose. EHR is sole owner of Healthcare Residential, Ltd. (HCR). As of December 31, 2017 and 2016, EHR had no activity to report.

Everglades Urban Residential, LLC (EUR), a subsidiary wholly owned by EHT, was formed to help enable EHT to carry out its purpose. EUR is sole owner of Urban Residential, LLC (UR). As of December 31, 2017 and 2016, EUR had no activity to report.

Everglades Brookwood Residential, LLC (EBR), a subsidiary wholly owned by EHT, was formed to help enable EHT to carry out its purpose. As of December 31, 2017 and 2016, EBR had no activity to report.

Brookwood Residential, LLC (BR), a subsidiary wholly owned by EHT, was formed to help enable EHT to carry out its purpose. As of December 31, 2016, BR had been donated one vacant lot from Florida Non-Profit Services, Inc. (FNPS) and purchased two additional vacant lots. During the year ended December 31, 2017, BR was donated one lot.

As of December 31, 2015, RNI had taken control of the board of FNPS, a nonprofit organization whose purpose is to develop safe and affordable housing. FNPS includes one subsidiary and three single-family homes.

FNPS includes the activities of one project:

Esperanza Place (EP) is a rental operation of FNPS, organized in 2006 to develop safe and affordable housing for low-income farmworkers and their families in Immokalee, Florida. EP is primarily financed through USDA and SAIL funds. EP operates a 47-unit apartment complex and 5 single family homes under the USDA Rural Development Rural Rental Housing Program, Section 514 Farm Labor Housing.

Everglades Housing Group, Incorporated (EHG) is a Florida nonprofit corporation formed on December 23, 2004 to provide property management and supportive services to the low-income housing projects of RNI, ECA, BCHC, LMHC and their affiliated organizations. Prior to EHG's inception, RNI and ECA self-managed their related properties. The Board of Directors of RNI constitutes the members of EHG and as members, appoints EHG's Board of Directors.

Operating cash flows generating from USDA Rural Development financed properties are not available for distribution to the Corporation as owner of the real property. These operating cash flows must be utilized towards operations or reserves of the specific USDA Rural Development funded property.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Basis of Presentation

In accordance with accounting principles generally accepted in the United States of America (GAAP), the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Corporation has no temporarily restricted net assets. In addition, the Corporation believes all expenditures incurred are program related expenditures and that there are no general and administrative or fundraising activities.

Tenant Accounts Receivable and Bad Debts

Tenant receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. GAAP requires that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Investment in Rental Property

Investments in rental property is recorded at cost. Expenditures for maintenance and repairs are charged to expenses as incurred while major renewals and betterments are capitalized. Construction in progress includes all development costs and capitalized interest incurred during the construction of the various projects. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related cost and accumulated depreciation. The resulting gains and losses are reflected on the consolidated statements of activities. Depreciation expense for the years ended December 31, 2017 and 2016 was $4,688,879 and $4,549,553, respectively.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements	40 years
Land improvements	15 - 20 years
Furniture and equipment	3 - 10 years

Impairment of Long-lived Assets

The Corporation reviews its rental property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the property are less than its carrying amount, management compares the carrying amount of the property to its fair value in order to determine whether an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No asset impairment losses were recognized during the years ended December 31, 2017 or 2016.

Debt Issuance Costs and Amortization

In accordance with GAAP, the debt issuance costs are presented as an offset of the related debt instruments within the liabilities section of the consolidated statements of financial position. Debt issuance costs are being amortized using the straight-line method over the term of the underlying debt instrument and amortization expense is included in interest expense on the accompanying consolidated statements of activities.

GAAP requires that the effective interest method be used to amortize debt issuance costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective interest method. Estimated amortization expense for each of the five ensuing years is approximately $76,970 for 2018, $71,528 for 2019, and $56,505 each year for 2020, 2021, and 2022, respectively.

Tax Credit Monitoring Fees

Tax credit monitoring fees of $496,191 and $496,191 at December 31, 2017 and 2016, respectively, are amortized using the straight-line method over the 15-year tax credit compliance period. As of December 31, 2017 and 2016, accumulated amortization of the tax credit monitoring fees was $337,342 and $304,203, respectively. For the years ended December 31, 2017 and 2016, amortization expense was $33,139 and $33,137, respectively. Estimated amortization expense for each of the five ensuing years is approximately $33,139 per year.

Rental Revenue

Rental revenue is recognized as the rents become due. Rental payments received in advance are deferred until earned. All leases between the Corporation and tenants of the Projects are operating leases and the terms are typically one year or less.

For the year ended December 31, 2017, total rental revenue was $11,249,606. This amount is comprised of $8,094,527 from tenants and $3,155,079 from USDA rental assistance.

For the year ended December 31, 2016, total rental revenue was $10,335,762. This amount is comprised of $7,260,094 from tenants and $3,075,668 from USDA rental assistance.

As of December 31, 2017 and 2016, rental assistance payments of $245,905 and $252,841, respectively, were due from the USDA and are reflected as rental assistance receivables on the accompanying consolidated statements of financial position.

Miscellaneous Revenue

Miscellaneous revenues include amounts earned from miscellaneous tenant charges such as late fees, security deposit forfeitures and damages assessments, among others.

Grants

The Corporation receives grants from various governmental agencies. Generally, the Corporation recognizes income from these grants as revenue and support only to the extent that expenditures have been made for the purposes specified in the grant agreements. For the years ended December 31, 2017 and 2016, the Corporation received and recognized grant revenues of $957,027 and $2,150,676, respectively, which includes $0 and $225,000 of permanently restricted capital grant funds received, respectively.

These permanently restricted capital grant funds are to be used for the purposes specified in the grant agreement. The grant agreements contain various covenants and compliance requirements. As of December 31, 2017 and 2016, management believes they have fulfilled all covenants and compliance requirements.

Endowment Funds

During 2016, the Corporation received permanently restricted endowment funds from Southwest Florida Community Foundation to provide income for the maintenance of the Corporation. For the years ended December 31, 2017 and 2016, the Corporation recognized $0 and $16,534, respectively, of permanently restricted revenue, which are included in grant revenue on the accompanying consolidated statements of activities. As of December 31, 2017 and 2016, $16,534 and $16,534, respectively, of endowments funds are included in other assets on the accompanying consolidated statements of financial position.

Advertising Costs

The Corporation's policy is to expense advertising costs when incurred.

Compensated Absences

Employees of the Corporation are entitled to paid vacation and paid sick days off. The Corporation's policy is to accrue the costs of compensated absences in the period that the employee becomes entitled to the compensated absences. As of December 31, 2017 and 2016, accrued absences totaled $103,177 and $88,108, respectively, which are included in accrued expenses on the accompanying consolidated statements of financial position.

Income Taxes

The Corporation has applied for and received a determination letter from the Internal Revenue Service (IRS) to be treated as a tax exempt entity pursuant to Section 501(c)(3) of the Internal Revenue Code and did not have any unrelated business income for the years ended December 31, 2017 and 2016. Due to its tax exempt status, the Corporation is not subject to income taxes. The Corporation is required to file and does file tax returns with the IRS and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes and the Corporation has no other tax positions which must be considered for disclosure. Generally, income tax returns filed by the Corporation are subject to examination by the IRS for a period of three years. While no income tax returns are currently being examined by the IRS, tax years since 2014 remain open.

Tax Credit Exchange Funds

Tax credit exchange funds are accounted for as a government grant related to assets. Upon receipt, exchange funds are recorded as deferred liabilities and recognized as income over the life of the related assets.

Forgiveness of Tax Credit Exchange Loans

The Corporation recognizes forgiveness of tax credit exchange loans based on the specific terms of forgiveness set forth in the loan documents. The terms of the Corporation's tax credit exchange loan provide for forgiveness based on terms that are contingent and are not recognized until such contingencies are resolved. All amounts of the loan for which forgiveness is recognized are considered tax credit exchange funds and accounted for as a government grant related to assets.

Capitalization of Interest

In accordance with GAAP, interest incurred during the project development period is capitalized as part of the cost of development. For the years ended December 31, 2017 and 2016, the Corporation capitalized interest costs of $54,069 and $3,055, respectively.

Non-controlling Interest in Limited Partnerships

Non-controlling interest in subsidiaries represents the aggregate balance of limited partner and investor limited partner interests in the non-wholly owned limited partnerships that are included in the accompanying consolidated financial statements.

Fair Value of Financial Instruments

The Corporation's financial instruments consist of cash, amounts due from affiliates, short-term accounts payable, accrued expenses and debt. The carrying value of these financial instruments approximates fair value due to the short-term nature of these items.

Risk Management

The Corporation is exposed to risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; material disasters; and product liability. The Corporation carries commercial insurance for risks of loss.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on the previously reported net assets or change in net assets of the Corporation.

NOTE 3 - RESTRICTED RESERVES AND ESCROWS

Tenants Security Deposits

Tenant security deposits consisted of the following as of December 31, 2017 and 2016:

	ECA	BCHC	LMHC	EHT	FNPS	PWCSH	Total
Balance, December 31, 2015	$ 321,501	$ 59,600	$ 44,900	$ 126,888	$ 20,800	$ -	$ 573,689
Deposits	117,555	23,800	39,301	42,614	2,000	-	225,270
Withdrawals	(90,970)	(15,800)	(35,400)	(6,653)	(3,125)	-	(151,948)
Balance, December 31, 2016	348,086	67,600	48,801	162,849	19,675	-	647,011
Deposits	37,408	17,803	5,300	25,333	4,350	855	91,049
Withdrawals	(33,814)	(12,015)	(6,601)	(14,873)	(3,450)	-	(70,753)
Balance, December 31, 2017	$ 351,680	$ 73,388	$ 47,500	$ 173,309	$ 20,575	$ 855	$ 667,307

Mortgage Escrows

Various affiliates are required under loan and grant agreements to deposit funds for the payment of real estate taxes and property insurance into mortgage escrow accounts. As of December 31, 2017 and 2016, the mortgage escrows consisted of the following:

	ECA	BCHC	LMHC	EHT	FNPS	Total
Balance, December 31, 2015	$ 494,133	$ 73,175	$ 50,110	$ 80,333	$ 26,662	$ 724,413
Deposits	782,754	124,253	74,228	164,501	31,347	1,177,083
Interest earnings	523	-	42	168	49	782
Withdrawals	(836,948)	(124,094)	(77,506)	(172,736)	(28,946)	(1,240,230)
Balance, December 31, 2016	440,462	73,334	46,874	72,266	29,112	662,048
Deposits	776,134	134,924	67,896	178,827	24,540	1,182,321
Interest earnings	497	-	38	167	43	745
Withdrawals	(724,815)	(126,729)	(68,614)	(183,032)	(26,342)	(1,129,532)
Balance, December 31, 2017	$ 492,278	$ 81,529	$ 46,194	$ 68,228	$ 27,353	$ 715,582

Replacement Reserves – USDA Projects

In accordance with the Loan and Grant Resolutions issued by USDA Rural Development, the Corporation is required to maintain a replacement reserve as described in 7 CFR 3560.306.

The funding schedule is listed below:

	Monthly	Annual	Fully Funded
ECA			
Phase I (239 units)	$ 23,203	$ 278,436	$ 7,098,329
Phase II (143 units)	13,883	166,596	4,247,117
Phase IV (18 units)	1,748	20,976	534,602
ERRH	1,250	15,000	150,000
EMH	2,500	30,000	300,000
OSC	5,798	69,576	695,727
PC (Phase I)	-	26,200	524,000
PC (Phase II)	-	15,948	319,960
BCHC			
MSV	2,084	25,008	250,000
EGALP	2,975	35,700	357,000
EGII	-	25,900	259,000
LMHC			
Phase I	2,085	25,020	250,000
Phase I supplemental	290	3,480	35,000
Phase III	1,125	13,500	137,000
RNI			
FNPS	4,167	50,004	-

The replacement reserve accounts are supervised by the applicable area's Rural Development Office of the USDA (the Agency). Use of these funds is restricted to approved capital expenditures as outlined in USDA Handbook 2-3560, Section 4.13. An endorsement from an Agency representative is required for the withdrawal of funds. Funds are held in interest bearing accounts at local financial institutions.

CCC Replacement Reserve

In accordance with the loan agreement with the FHFC, CCC established a replacement reserve, which is used to fund capital repairs, replacements and improvements to the project as the need arises. CCC makes monthly deposits based on an annual amount of $325 per unit. Release of funds from the replacement reserve requires the approval of the FHFC. Funds are held in an interest bearing account at the CenterState Bank of Florida (CenterState).

LOVI-LTD Replacement Reserve

LOVI-LTD is required to fund a replacement reserve of $200 per unit per year. The replacement reserve amount will be adjusted annually by the consumer price index (CPI), beginning January 1, 2010. Withdrawals from the replacement reserve require the approval of the administrative limited partner of LOVI-LTD.

LOVII-LTD Replacement Reserve

Upon commencement of the permanent financing phase, as defined, LOVII-LTD is required to fund a replacement reserve of $250 per unit per year. The replacement reserve amount is required to be adjusted on January 1, 2013 and January 1 of each fifth year thereafter by the greater of the CPI or the amount required by the permanent lender. Withdrawals from the replacement reserve require the approval of the administrative limited partner of LOVII-LTD.

ESH Replacement Reserve

In accordance with the loan agreement with the FHFC, ESH established a replacement reserve, which is used to fund capital repairs, replacements and improvements to the project as the need arises. Withdrawals of funds from the replacement reserve require the approval of the FHFC. In October 2009, the ESH was required to begin making deposits based on an annual amount of $200 per unit. The replacement reserve was established and a deposit of $800 was made on January 13, 2010. Funds are held in an account at a local financial institution.

OGA-LTD Replacement Reserve

OGA-LTD is required to make monthly deposits to a reserve for replacements account for use in funding maintenance and replacement costs.

CCA-LTD Replacement Reserve

CCA-LTD is required to make monthly deposits to a reserve for replacements account for use in funding maintenance and replacement costs.

As of December 31, 2017 and 2016, the replacement reserves consisted of the following:

	ECA	BCHC	LMHC	EHT	EHG	FNPS	Total
Balance, December 31, 2015	$ 3,806,477	$ 600,422	$ 354,690	$ 225,077	$ 88,212	$ 208,575	$ 5,283,453
Deposits	589,145	61,596	58,620	48,000	-	50,004	807,365
Interest earnings	2,233	1,300	642	502	79	802	5,558
Withdrawals	(1,508,212)	(38,595)	(32,459)	-	(88,291)	(13,292)	(1,680,849)
Balance, December 31, 2016	2,889,643	624,723	381,493	273,579	-	246,089	4,415,527
Deposits	1,074,779	19,871	58,620	47,999	-	49,300	1,250,569
Interest earnings	2,520	1,297	687	598	-	1,028	6,130
Withdrawals	(2,015,412)	(91,221)	(37,595)	-	-	(47,830)	(2,192,058)
Balance, December 31, 2017	$ 1,951,530	$ 554,670	$ 403,205	$ 322,176	$ -	$ 248,587	$ 3,480,168

Debt Service Reserve

The Corporation established debt service reserves to pay principal and interest on loans as required under the loan agreements with the USDA and the FHFC.

As of December 31, 2017 and 2016, the debt service reserves consisted of the following:

	ECA	BCHC	LMHC	Total
Balance, December 31, 2015	$ 463,275	$ 371,047	$ 30,140	$ 864,462
Deposits	723,852	413,556	232,284	1,369,692
Interest earnings	1,347	568	134	2,049
Withdrawals	(682,032)	(323,558)	(232,299)	(1,237,889)
Balance, December 31, 2016	506,442	461,613	30,259	998,314
Deposits	726,992	413,556	232,284	1,372,832
Interest earnings	1,443	692	121	2,256
Withdrawals	(685,155)	(323,560)	(232,299)	(1,241,014)
Balance, December 31, 2017	$ 549,722	$ 552,301	$ 30,365	$ 1,132,388

Operating Reserves

OSC was required to establish and maintain an initial operating reserve of no less than $25,000. The funds are held in an interest bearing account at CenterState.

CCA-LTD, OGA-LTD, and OM maintain operating reserves. The funds are held in interest bearing accounts at local financial institutions.

As of December 31, 2017 and 2016, the operating reserve consisted of the following:

	ECA	EHT	FNPS	Total
Balance, December 31, 2015	$ 27,250	$ 918,924	$ 60,629	$ 1,006,803
Deposits	-	36,097	22,935	59,032
Interest earnings	33	1,844	14	1,891
Withdrawals	-	-	(18,242)	(18,242)
Balance, December 31, 2016	27,283	956,865	65,336	1,049,484
Deposits	-	-	14,820	14,820
Interest earnings	33	1,843	14	1,890
Withdrawals	-	(36,097)	(14,141)	(50,238)
Balance, December 31, 2017	$ 27,316	$ 922,611	$ 66,029	$ 1,015,956

NOTE 4 - RELATED PARTY TRANSACTIONS

Property Management Fee

EHG is the management company that oversees a majority of the operations of the Corporation (see also Note 9). Generally, EHG receives a fee per occupied unit per month, from tenant rents for their role as property manager, which is based on the approved USDA per occupied unit per month amount for Florida properties. For the years ended December 31, 2017 and 2016, the monthly per occupied unit fee was generally $54.00 and $52.00, respectively. Property management fees earned by EHG during the years ended December 31, 2017 and 2016 were $662,772 and $578,594, respectively, which have been eliminated on the accompanying consolidated statements of activities.

EHG also serves as the primary employer of the staff of the Corporation and pays all monthly operating expenses for the Corporation on a cost reimbursement basis. Reimbursable expenses that remain payable to EHG as of December 31, 2017 and 2016 have been eliminated on the accompanying consolidated statements of financial position.

Development Fees

Live Oak Villas II, Ltd.

LOVII-LTD entered into a co-development agreement with Pinnacle Housing Group, LLC (PHG), a related party until 2009, and RNI. The development fee incurred and payable under this agreement is apportioned four-fifths to PHG and one-fifth to RNI.

The agreement provides for a developer fee of $1,731,614 for services in connection with the development of the project and supervision of construction. The developer fee is payable out of development proceeds and cash flows from operations, as defined. As of December 31, 2017 and 2016, the full developer fee has been capitalized as part of the project cost and $136,433 and $194,563, respectively, remained payable. The portion payable to PHG is included in developer fee payable on the accompanying consolidated statements of financial position. The portion payable to RNI has been eliminated on the accompanying consolidated statements of financial position. The developer fee shall be paid in full by 2020.

Oaks at Shannon’s Crossing, LP

OSC entered into a development agreement with RLI Beneficial Development 5, LLC (RLI Beneficial) and ECA. ECA later assigned the agreement to RNI. All development fees incurred and payable under this agreement are apportioned two-thirds to RLI Beneficial and one-third to RNI. The agreement provides for a development fee of $1,798,040 for services in connection with the development of the project and supervision of construction. Development fees of $600,000 were paid from capital contributions. As of December 31, 2017 and 2016, the development fee has been capitalized as part of the project cost and $1,055,298 and $1,055,298, respectively, remained payable and was deferred. The portion payable to RLI Beneficial is included in developer fee payable on the accompanying consolidated statements of financial position. The portion payable to RNI has been eliminated on the accompanying consolidated statements of financial position.

Under the terms of the partnership agreement, the deferred development fee shall bear interest from the month of construction completion until the date of payment at the long-term Applicable Federal Rate (AFR), or 4.27 percent. The deferred development fee is payable from available cash flows, as defined, but no later than January 1, 2020. As of December 31, 2017 and 2016, accrued and unpaid interest on the deferred development fee due to RNI was $166,485 and $145,262, respectively, and has been eliminated on the accompanying consolidated statements of financial position. As of December 31, 2017 and 2016, accrued and unpaid interest on the deferred development fee due to RLI Beneficial was $332,971 and $290,524, respectively, and is included in development fees payable on the accompanying consolidated statements of financial position.

Eden Gardens Apartments Project

The Corporation entered into development agreements with JR Beneficial Development, LLC (JR Beneficial) and RNI. All development fees incurred and payable under these agreements are apportioned two-thirds to JR Beneficial and one-third to RNI.

The agreements provide for a development fee of $2,171,765 for services in connection with the development of the various phases of the EGA project and supervision of construction. As of December 31, 2017 and 2016, the full development fee, had been incurred and capitalized into the cost of the three phases. As of December 31, 2017 and 2016, $669,035 and $669,035, respectively, remained payable. The portion payable to RNI has been eliminated on the accompanying consolidated statements of financial position. The portion payable to JR Beneficial is included in developer fee payable on the accompanying consolidated statements of financial position.

Oak Marsh, LLC

During 2016, the Corporation entered into an agreement with RNI to develop and rehabilitate the Project. The agreement provides for a total developer fee of $680,508, of which $335,531 is required to be deferred. The Corporation is allowed to draw a maximum of 50 percent of the total developer fee during construction/rehabilitation with no more than 35 percent funded at closing. The remaining developer fee will funded on a pro rata basis based on the percentage of completion of the development. As of December 31, 2017 and 2016, $80,752 and $80,752, respectively, has been earned and received by the Corporation.

The portion of development fees earned by RNI and the related balances, have been eliminated on the accompanying consolidated financial statements.

Other Related Party Fees

Asset Management Fees

Pursuant to the partnership agreements, LOVI-LTD and LOVII-LTD are required to pay their respective administrative limited partners an annual asset management fee for their services in reviewing the informational reports, financial statements and tax returns of the partnerships. The fees are payable to the extent of available cash flow, as defined. Unpaid fees accrue without interest. During each of the years ended December 31, 2017 and 2016, asset management fees of $5,200 and $5,200, respectively, were incurred by LOVI-LTD and are included in project administration expenses on the accompanying consolidated statements of activities, and $0 and $0, remained payable as of December 31, 2017 and 2016, respectively. During the years ended December 31, 2017 and 2016, asset management fees of $3,352 and $3,262, respectively, were incurred by LOVII-LTD and are included in project administration expenses on the accompanying consolidated statements of activities, and $0 and $0 remained payable as of December 31, 2017 and 2016.

Pursuant to the partnership agreement, commencing in 2009, EGALP is required to pay its investor limited partner an annual asset management fee of $3,315 for property management oversight, tax credit compliance monitoring and related services. The fee is payable to the extent of available cash flow, as defined. The fee shall increase 3 percent annually and unpaid fees accrue without interest. For the years ended December 31, 2017 and 2016, asset management fees of $4,199 and $4,077, respectively, were incurred and paid, which is included in project administration expenses on the accompanying consolidated statements of activities.

Investor Services Management Fee

Pursuant to the partnership agreement, OSC is required to pay the investment limited partner an annual, cumulative fee of $5,000 per year, commencing with the year beginning January 1, 2008. The investor services fee shall be payable annually by OSC out of cash flow, as defined. The fee shall increase 3 percent annually, commencing January 1, 2009. For the years ended December 31, 2017 and 2016, investor services management fees of $6,524 and $6,334, respectively, were incurred. As of December 31, 2017 and 2016, investor services fees of $0 and $0 remained payable, respectively.

Nonprofit Asset Management Fee

In accordance with the USDA Handbook HB-2-3560, EFV submitted budgets to the USDA Rural Development, which included a nonprofit asset management fee of $7,500 for 2017 and 2016. These budgets were approved by the USDA. During the years ended December 31, 2017, and 2016, EFV did not incur or pay nonprofit asset management fees.

In accordance with the USDA Handbook HB-2-3560, EMH submitted 2017 and 2016 budgets to the USDA Rural Development, which included a nonprofit asset management fee of $3,750 and $7,500, respectively. The budgets were approved by the USDA. During the years ended December 31, 2017 and 2016, EMH incurred $0 and $0, respectively, in nonprofit asset management fees to ECA, of which $0 and $0, respectively, remained payable as of December 31, 2017 and 2016. These fees and related payable balances have been eliminated on the accompanying consolidated statements of activities and consolidated statements of financial position, respectively.

In accordance with the USDA Handbook HB-2-3560, ERRH submitted 2017 and 2016 budgets to the USDA Rural Development, which included a nonprofit asset management fee of $0 and $7,500, respectively. The budgets were approved by the USDA. During the years ended December 31, 2017, and 2016, ERRH incurred $0 and $7,500, respectively, in nonprofit asset management fees to ECA, of which $0 and $7,500, respectively, remain payable as of December 31, 2017 and 2016. These fees and related payable balances have been eliminated on the accompanying consolidated statements of activities and consolidated statements of financial position, respectively.

In accordance with the USDA Handbook HB-2-3560, PC Phase I submitted budgets to the USDA Rural Development, which included a nonprofit asset management fee of $0 for 2017 and $3,750 for 2016. These budgets were approved by the USDA. During the years ended December 31, 2017, and 2016, PC incurred $0 and $3,750, respectively, in nonprofit asset management fees to ECA, of which $0 and $3,750, respectively, remained payable as of December 31, 2017 and 2016. These fees and related payable balances have been eliminated on the accompanying consolidated statements of activities and consolidated statements of financial position, respectively.

In accordance with the USDA Handbook HB-2-3560, PC Phase II submitted budgets to the USDA Rural Development, which included a nonprofit asset management fee of $7,200 for 2017 and $7,500 for 2016. These budgets were approved by the USDA. During the years ended December 31, 2017, and 2016, PC incurred $7,200 and $3,750, respectively, in nonprofit asset management fees to ECA, of which $7,200 and $3,750, respectively, remained payable as of December 31, 2017 and 2016. These fees and related payable balances have been eliminated on the accompanying consolidated statements of activities and consolidated statements of financial position, respectively.

In accordance with the Handbook HB-2-3560, MSV submitted budgets to the USDA Rural Development, which included a nonprofit asset management fee of $0 for 2017 and $7,500 for 2016. These budgets were approved by the USDA. During the years ended December 31, 2017, and 2016, MSV incurred $0 and $7,500, respectively, in nonprofit asset management fees to BCHC, of which $0 and $7,500, respectively, remained payable as of December 31, 2017 and 2016. These fees and related payable balances have been eliminated on the accompanying consolidated statements of activities and consolidated statements of financial position, respectively.

In accordance with the Handbook HB-2-3560, EGII submitted budgets to the USDA Rural Development, which included a nonprofit asset management fee of $0 for 2017 and $7,500 for 2016. These budgets were approved by the USDA. During the years ended December 31, 2017, and 2016, EGII incurred $0 and $7,500, respectively, in nonprofit asset management fees to BCHC, of which $0 and $7,500, respectively, remained payable as of December 31, 2017 and 2016. These fees and related payable balances have been eliminated on the accompanying consolidated statements of activities and consolidated statements of financial position, respectively.

Incentive Partnership Management Fee

For management services related to CCA-LTD, CC is to be paid an annual non-cumulative incentive partnership management fee. The fee is payable to the extent of available cash flow. During the years ended December 31, 2017 and 2016, CC earned $186,904 and $184,500 in incentive partnership management fees, respectively, which has been eliminated between CCA-LTD and CC and is not included on the accompanying consolidated statements of activities.

For management services related to OGA-LTD, OA is to be paid an annual non-cumulative incentive partnership management fee. The fee is payable to the extent of available cash flow. During the years ended December 31, 2017 and 2016, OA earned $223,678 and $204,914 in incentive partnership management fees, respectively, which has been eliminated between OGA-LTD and OA and is not included on the accompanying consolidated statements of activities.

EHG charges OA, CC, LOVI, ECA, and FNPS a supervisory accounting fee for accounting, management and supervisory services provided. For the years ended December 31, 2017 and 2016, supervisory accounting fees of $165,000 and $167,000 were earned by EHG, which have been eliminated on the accompanying consolidated statements of activities. As of December 31, 2017, supervisory accounting fees of $48,000 were due to EHG from LOVI, which have been eliminated on the accompanying consolidating statements of financial position. As of December 31, 2016, supervisory accounting fees of $24,000 were due to EHG from OA and CC, which have been eliminated on the accompanying consolidated statements of financial position. No formal executed agreement exists in regards to the supervisory accounting fee. EHG assesses the fee annually based upon an estimate of services performed and costs incurred related to accounting, management and supervisory services provided directly to OA, CC, LOVI, ECA, and FNPS.

RNI charges OA and CC asset management fees for management and supervisory services provided related to OGA-LTD and CCA-LTD. For the years ended December 31, 2017 and 2016, asset management fees of $120,000 and $120,000 were earned by RNI, which have been eliminated on the accompanying consolidated statements of activities. As of December 31, 2017 and 2016, supervisory accounting fees of $1,280 and $2,000, respectively, were due to RNI from OA and CC, which have been eliminated on the accompanying consolidated statements of financial position. RNI assesses the fee annually based upon an estimate of services performed and costs incurred related to management and supervisory services provided directly to OA and CC.

RNI charges ECA asset management fees for management and supervisory services provided related to ECA. For the years ended December 31, 2017 and 2016, asset management fees of $42,000 and $84,000, respectively, were earned and paid to RNI, which have been eliminated on the accompanying consolidated statements of activities. RNI assesses the fee annually based upon an estimate of services performed and costs incurred related to management and supervisory services provided directly to ECA.

RNI has balances due from affiliates for the payment of various administrative expenses. The balances between RNI and its affiliates have been eliminated in the accompanying consolidated financial statements and consist of the following:

BCHC received advances from RNI to pay for general operating expenses. As of December 31, 2017 and 2016, the total amount of advances owed to RNI was $0 and $0, respectively.

Notes Receivable – Affiliates

Notes receivable from affiliates includes obligations payable to RNI under various note and loan agreements. The balances between RNI and its affiliates have been eliminated on the accompanying consolidated financial statements.

On January 1, 2008, RNI entered into a promissory note with ECA for advances up to $350,000 to fund the development costs of CCC. The note is non-interest bearing and due on demand. As of December 31, 2017 and 2016, the note balance was $125,000 and $200,000, respectively.

On June 1, 2008, RNI entered into a promissory note with ECA for $412,374 to fund the operating costs of CCC. The note is non-interest bearing and is due on demand. As of December 31, 2017 and 2016, the note balance was $412,374 and $412,374, respectively.

On November 16, 2007, RNI entered into a $341,000 promissory note with PC for the purchase of land for development. The note bears interest at a rate of 6.75 percent per annum and requires no annual principal or interest payments. Any unpaid principal and interest is payable in full at maturity on November 16, 2012. On January 1, 2011, RNI extended the maturity date to December 31, 2012 and reduced the interest rate to 0 percent. During 2012, phase III of PC was incorporated as a separate legal entity and the liability balance was transferred to PCSH. On January 1, 2013, RNI extended the maturity date to December 31, 2013. On November 26, 2013, RNI extended the maturity date to June 30, 2014. On February 3, 2015, RNI extended the maturity date to December 31, 2017. During 2017, RNI extended the maturity date to December 31, 2018. As of December 31, 2017 and 2016, the note balance was $341,000 and $341,000, respectively, and accrued interest was $7,000 and $7,000, respectively.

On June 8, 2006, RNI entered into a $500,000 promissory note with OSC. The proceeds were received by RNI through the Affordable Housing Program of the Federal Home Loan Bank of Pittsburgh. The note is non-interest bearing and payable in full at maturity on May 1, 2039. As of December 31, 2017 and 2016, the note balance was $500,000 and $500,000, respectively.

On August 24, 2007, RNI entered into a promissory note with ECA for advances of up to $300,000. The note is non-interest bearing and payable on demand. As of December 31, 2017 and 2016, $212,500 and $112,500, respectively, remained payable. ECA used the funds to fund various pre-development costs.

On December 31, 2011, PC entered into a promissory note with RNI for advances of up to $150,000. The note is non-interest bearing and payable upon disposition of the PC project. During 2012, phase III of PC was incorporated as a separate legal entity and the liability balance was transferred to PCSH. As of December 31, 2017 and 2016, the note balance was $277,200 and $275,000, respectively.

On November 3, 2004, LOVI-LTD entered into a promissory note with ECA in an amount not to exceed $75,000. Subsequently, the Board of Directors transferred the note to RNI through an assignment. The note is non-interest bearing and payable in full at maturity on November 3, 2034. As of December 31, 2017 and 2016, the note balance was $75,000 and $75,000, respectively.

On November 19, 2004, LOV1-LTD entered into a promissory note with ECA in an amount not to exceed $1,500,000. Subsequently, the Board of Directors transferred the note to RNI through an assignment. The note is non-interest bearing and payable in full at maturity on November 19, 2034. As of December 31, 2017 and 2016, the note balance was $1,500,000 and $1,500,000, respectively.

On August 30, 2006, RNI provided a loan of up to $400,000 for the construction of Phase I of EGALP. The proceeds were received by RNI through the U.S. Department of Housing and Urban Development. The loan bears interest at a rate of 1.00 percent per annum and matures August 30, 2046. RNI has been granted a security interest in the real property of the project. For each of the years ended December 31, 2017 and 2016, interest incurred and paid was $2,713. As of December 31, 2017 and 2016, the balance of the loan was $271,306 and $271,306, respectively.

During 2015 and 2014, HP was allocated $275,000 of restricted NeighborWorks funds for RNI for use in expansion of the project. These restricted funds are to be used for the purposes specified in the grant agreement. The grant agreement contains various covenants and compliance requirements. As of December 31, 2017 and 2016, the balance was $550,000 and $550,000, respectively.

On December 31, 2015, HP entered into a note with RNI for an amount of $400,000. During the year ended December 31, 2016, HP entered into a new promissory note with RNI for $300,000. As of December 31, 2017 and 2016, the balance was $184,122 and $700,000, respectively.

During 2015, PCSH was allocated $275,000 of restricted NeighborWorks funds for RNI for use in expansion of the project. These restricted funds are to be used for the purposes specified in the grant agreement. The grant agreement contains various covenants and compliance requirements. As of December 31, 2017 and 2016, the balance was $275,000 and $275,000, respectively.

During 2015, EGALP entered into a promissory note with RNI in the amount of $529,300 to cover legal fees incurred by the Partnership. The note does not bear interest and is to be repaid upon exit of the General Partner. As of December 31, 2017 and 2016, the balance was $529,300 and $529,300, respectively.

During 2015, ESH entered into a promissory note with RNI in the amount of $112,998 to cover legal fees incurred by the Company. The note does not bear interest and requires no annual

payments. As of December 31, 2017 and 2016, the balance was $112,998 and $112,998, respectively.
On October 28, 2015, BWR entered into a note with RNI for an amount not to exceed $100,100. The note is non-interest bearing and has no fixed repayment date. As of December 31, 2017 and 2016, the balance was $100,100 and $100,100, respectively.

On December 31, 2015, BWR entered into a note with RNI for an amount not to exceed $100,000. The note is non-interest bearing and has no fixed repayment date. As of December 31, 2017 and 2016, the balance was $122,900 and $67,900, respectively. During 2018, the entire principal balance was paid in full.

During 2016 and 2015, OM received advances from RNI. As of December 31, 2017 and 2016, the balance was $200,000 and $200,000, respectively.

On December 31, 2013, HP entered into a note with RNI for an amount not to exceed $100,000. The note is non-interest bearing and has no fixed repayment date. As of December 31, 2017 and 2016, the balance was $20,500 and $25,000, respectively.

On December 31, 2016, OM entered into a note with RNI for an amount not to exceed $25,000. The note is non-interest bearing and has no fixed repayment date. As of December 31, 2017 and 2016, the balance was $0 and $25,000, respectively.

On December 31, 2008, EHG entered into a note with RNI for an amount not to exceed $250,000. The note is non-interest bearing and has no fixed repayment date. As of December 31, 2017 and 2016, the balance was $100,000 and $100,000, respectively.

On February 28, 2017, RNI entered into a mortgage with FNPS in the amount of $117,000. The note bears interest at 5 percent per annum and matures on February 28, 2047. As of December 31, 2017 and 2016, the note balance was $117,000 and $0, respectively.

On February 28, 2017, RNI entered into a mortgage with FNPS in the amount of $117,000. The note bears interest at 5 percent per annum and matures on March 10, 2047. As of December 31, 2017 and 2016, the note balance was $88,000 and $0, respectively.

Notes Receivable from Affiliates also includes the following Obligations Payable to ECA:

On August 30, 2006, ECA entered into a promissory note with EGALP for $400,000 for the construction of a low-income housing project. The proceeds were received by ECA through the Affordable Housing Program of the Federal Home Loan Bank of Atlanta. The note bears interest at a rate of 1.0 percent per annum and matures August 30, 2046. As of December 31, 2017 and 2016, the balance of the note outstanding was $400,000 and $400,000, respectively. The balances have been eliminated in the accompanying consolidating statements of financial position. For the years ended December 31, 2017 and 2016, interest of $4,000 and $4,000, respectively, was incurred. The balances have been eliminated in the accompanying consolidated statements of activities.

On March 10, 2008, ECA entered into a promissory note with EGII for $400,000 for the construction of a low-income housing project. The proceeds were received by ECA through the Affordable Housing Program of the Federal Home Loan Bank of Atlanta. The note is non-interest bearing and matures May 1, 2048, at which time the principal amount of the loan will be automatically forgiven if certain prescribed conditions are met. As of December 31, 2017 and 2016, the balance of the note was $400,000 and $400,000 respectively. The balances have been eliminated on the accompanying consolidated statements of financial position

NOTE 5 - PROMISSORY NOTE AND MORTGAGES PAYABLE

Notes and Mortgages Payable under ECA are as follows:

On January 26, 1995, ECA entered into a loan agreement and a series of grants with the USDA for $20,211,190. The USDA loan of $6,389,219 and USDA grants of $13,821,971 were combined to provide construction funds for 239 of the rental units and the administrative complex for the EFV project. The loan is repayable in annual installments of $240,718 due on January 1 of each year. The loan bears interest at a rate of 1.00 percent per annum and matures January 1, 2032. As of December 31, 2017 and 2016, the loan balance was $2,311,961 and $2,539,979, respectively. As of December 31, 2017 and 2016, interest of $317 and $835, respectively, remained payable and is included in accrued interest payable on the accompanying consolidated statements of financial position.

On March 26, 1996, ECA entered into a loan agreement and a series of grants with the USDA for $15,924,299. The loan of $1,450,000 and grants of $14,474,299 were combined to provide construction funds for 143 of the rental units along with a neighborhood retail center and a Miami-Dade County public park. The loan bears interest at a rate of 1.00 percent per annum and matures January 1, 2034. Principal and interest are payable in annual installments of $54,630. As of December 31, 2017 and 2016, the loan balance was $505,827 and $557,765, respectively. As of December 31, 2017 and 2016, interest of $69 and $183, respectively, remained payable and is included in accrued interest payable on the accompanying consolidated statements of financial position.

In August 2012, ECA entered into a loan agreement with the USDA for $1,500,000 to provide construction funds for the 18 units of EFV Phase IV. The loan bears interest at a rate of 1.00 percent per annum and matures August 10, 2045. The loan requires annual interest payments beginning January 1, 2013 through January 1, 2014. Principal and interest are due in annual installments of $56,514 beginning January 1, 2015, with any unpaid principal and interest due at maturity. As of December 31, 2017 and 2016, the loan balance was $1,289,289 and $1,316,209, respectively. As of December 31, 2017 and 2016, interest of $177 and $433, respectively, remained payable and is included in accrued interest payable on the accompanying consolidated statements of financial position.

On December 1, 2006, ECA entered into a $1,500,000 loan agreement with the USDA to provide construction funds for the 15 units of ERRH. On November 1, 2008, the loan agreement was amended to increase the loan to $1,614,309. The loan bears interest at a rate of 6.00 percent per annum with a 50-year amortization. The loan agreement requires monthly principal and interest payments of $8,553 until maturity on December 1, 2036. Under an interest credit agreement with the USDA, ECA receives a monthly interest credit of $5,027 towards the monthly principal and interest payment, resulting in a net monthly payment of $3,526 due from ECA. As of December 31, 2017 and 2016, the balance was $1,540,748 and $1,550,163, respectively, which includes unamortized debt issuance costs of $4,056 and $4,270, respectively. As of December 31, 2017 and 2016, interest of $2,697 and $2,745, respectively, remained payable and is included in accrued interest payable on the accompanying consolidated statements of financial position. During the years ended December 31, 2017 and 2016, interest expense totaled $32,840 and $33,402, respectively, which includes amortization of debt issuance costs of $214 and $214, respectively, and is included in interest on mortgages payable on the accompanying consolidated statements of activities.

On December 14, 2004, ECA entered into a $1,250,000 loan agreement with FHFC to provide construction funds for the 28 units of CCC. The loan is non-interest bearing and requires annual payments of $41,667 into a debt service fund until maturity on December 30, 2020. ECA may extend the maturity date, at the sole discretion of the FHFC, in additional five-year increments based on continued occupancy by farm workers, not to exceed a total term of 30 years. As of December 31, 2017 and 2016, the loan balance was $1,250,000 and $1,250,000, respectively.

On January 27, 2010, ECA entered into a $2,000,000 loan agreement with the USDA to provide construction funds for the 30 units of EMH. The loan bears interest at a rate of 1.00 percent per annum and matures January 1, 2043. The loan agreement requires annual interest payments beginning January 1, 2011 through January 1, 2012. Principal and interest are payable in annual installments of $75,351 beginning January 1, 2013 with any unpaid principal and interest due at maturity. The loan is secured by the underlying rental property. As of December 31, 2017 and 2016, the balance was $1,652,871 and $1,710,476, respectively, which includes unamortized debt issuance costs of $6,203 and $6,451, respectively. As of December 31, 2017 and 2016, interest of $277 and $564, respectively, remained payable and is included in accrued interest payable on the accompanying consolidated statements of financial position. During the years ended December 31, 2017 and 2016, interest expense totaled $17,409 and $17,975, respectively, which includes amortization of debt issuance costs of $248 and $248, respectively, and is included in interest on mortgages payable on the accompanying consolidated statements of activities.

On January 29, 2010, ECA entered into a $1,030,665 loan agreement with the FHFC to provide construction funds for the 30 units of EMH. The loan is non-interest bearing and matures January 29, 2030, at which time the principal amount of the loan will be automatically forgiven if certain prescribed conditions are met. The loan is secured by the underlying rental property. As of December 31, 2017 and 2016, the balance was $1,030,655 and $1,030,655, respectively.

On May 1, 2004, LOVI-LTD entered into a first mortgage agreement with Citibank Federal Savings Bank with the principal not to exceed $2,000,000. On April 30, 2006, the conversion date, a pay-down of $286,731 was made to reduce the principal amount of the loan to $2,000,000. During 2009, the note was transferred and is now held with Berkadia Commercial Mortgage (Berkadia). The loan bears interest at a rate of 7.15 percent per annum and is amortized over 30 years. Principal and interest are payable in monthly installments of $13,508 until maturity on May 1, 2021. As of December 31, 2017 and 2016, the balance was $1,624,028 and $1,650,645, respectively, which includes unamortized debt issuance costs of $30,551 and $46,079, respectively. During the years ended December 31, 2017 and 2016, interest expense totaled $135,229 and $138,146, respectively, which includes amortization of debt issuance costs of $15,528 and $15,528, respectively, and is included in interest on mortgages payable on the accompanying consolidated statements of activities.

On February 29, 2009, LOVII-LTD entered into a mortgage agreement with Berkadia for $2,095,000. The loan bears interest at a rate of 6.53 percent per annum and matures February 28, 2024. Monthly principal and interest payments of $13,283 are required until maturity, at which time any unpaid principal and accrued interest are payable in full. As of December 31, 2017 and 2016, the balance was $1,748,645 and $1,775,142, respectively, which includes unamortized debt issuance costs of $80,630 and $92,701, respectively. During the years ended December 31, 2017 and 2016, interest expense totaled $132,691 and $135,135, respectively, which includes amortization of debt issuance costs of $12,071 and $12,071, respectively, and is included in interest on mortgages payable on the accompanying consolidated statements of activities.

On November 25, 2009, PC entered into a $2,250,000 loan agreement with the USDA for the development of Phase I of the project. During the year ended December 31, 2012, PC applied for and was granted a loan reamortization from the USDA. Per the amended loan agreement, the loan bears interest at a rate of 1.00 percent per annum and matures November 25, 2043. Principal and interest are due in annual installments of $84,715 beginning January 1, 2014, with any unpaid principal and interest due at maturity. As of December 31, 2017 and 2016, the balance was $1,826,971 and $1,890,419, respectively, which includes unamortized debt issuance costs of $38,293 and $39,887, respectively. During the years ended December 31, 2017 and 2016, interest expense totaled $20,888 and $21,526, respectively, which includes amortization of debt issuance costs of $1,594 and $1,596, respectively, and is included in interest on mortgages payable on the accompanying consolidated statements of activities. As of December 31, 2017 and 2016, interest of $256 and $635, respectively, remained payable and is included in accrued interest payable on the accompanying consolidated statements of financial position.

On November 25, 2009, PC entered into a $1,500,000 loan agreement with the USDA for the development of Phase II of the project. During the year ended December 31, 2012, PC applied for and was granted a loan reamortization from the USDA. Per the amended loan agreement, the loan bears interest at a rate of 1.00 percent per annum and matures November 25, 2043. Principal and interest are due in annual installments of $57,066 beginning January 1, 2014, with any unpaid principal and interest due at maturity. As of December 31, 2017 and 2016, the balance was $1,223,559 and $1,275,676, respectively, which includes unamortized debt issuance costs of $22,916 and $24,613, respectively. For the years ended December 31, 2017 and 2016, interest expense totaled $14,694 and $15,124, respectively, which includes amortization of debt issuance costs of $1,697 and $1,698, respectively, and is included in interest on mortgages payable on the accompanying consolidated statements of activities. As of December 31, 2017 and 2016, interest of $172 and $427, respectively, remained payable and is included in accrued interest payable on the accompanying consolidated statements of financial position.

On December 17, 2009, PC entered into a $3,855,304 loan agreement with the FHFC for the development of Phase I of the project. The loan bears interest at a rate of 1.00 percent per annum and matures January 1, 2042. Annual interest payments are payable out of development cash flows, as defined, with any unpaid principal and interest due at maturity. As of December 31, 2017 and 2016, the loan balance was $3,855,304 and $3,855,304, respectively. During the years ended December 31, 2017 and 2016, interest expense totaled $38,553 and $38,553, respectively, and is included in interest on mortgages payable on the accompanying consolidated statements of activities. As of December 31, 2017 and 2016, interest of $168,170 and $161,320, respectively, remained payable and is included in accrued interest payable on the accompanying consolidated statements of financial position.

On December 17, 2009, PC entered into a $1,140,282 loan agreement with the FHFC for the development of Phase II of the project. The loan is non-interest bearing and requires a single balloon payment at maturity on January 1, 2042. As of December 31, 2017 and 2016, the loan balance was $1,140,282 and $1,140,282, respectively.

On January 18, 2007, OSC entered into a $3,000,000 loan agreement with the USDA. The loan bears interest at a rate of 1.00 percent per annum and matures January 18, 2040. The loan requires annual payments of accrued interest beginning January 1, 2008 through January 1, 2009. Principal and interest are payable in annual installments of $113,027 beginning on January 1, 2010, with any unpaid principal and interest due at maturity. As of December 31, 2017 and 2016, the balance was $2,214,507 and $2,303,685, respectively, which includes unamortized debt issuance costs of $6,861 and $7,158, respectively. During the years ended December 31, 2017 and 2016, interest expense totaled $23,267 and $24,394, respectively, which includes amortization of debt issuance costs of $297 and $297, respectively, and is included in interest on mortgages payable on the accompanying consolidated statements of activities.

On December 28, 2007, ESH entered into a $300,000 loan agreement with the FHFC for the construction of the project. The loan is non-interest bearing and requires a single balloon payment at maturity on December 28, 2027. As of December 31, 2017 and 2016, the loan balance was $294,740 and $294,216, respectively, which includes unamortized debt issuance costs of $5,260 and $5,784, respectively.

Notes and Mortgages Payable under BCHC are as follows:

On May 3, 2002, BCHC entered into a $2,500,000 loan agreement with the USDA to provide funds for the construction of MSV. The loan bears interest at a rate of 1.00 percent per annum and matures May 3, 2035. Principal and interest are payable in annual installments of $94,189. USDA requires a monthly payment to a debt service reserve account of 1/12th of the annual principal and interest payment. As of December 31, 2017 and 2016, the balance was $1,465,069 and $1,543,527, respectively. During the years ended December 31, 2017 and 2016, interest expense totaled $15,340 and $16,272, respectively, and is included in interest on mortgages payable on the accompanying consolidated statements of activities. As of December 31, 2017 and 2016, interest of $201 and $592, respectively, remained payable and is included in accrued interest payable on the accompanying consolidated statements of financial position.

On October 3, 2007, EGALP entered into a $3,000,000 loan agreement with the USDA. The loan bears interest at a rate of 1.00 percent per annum and matures January 1, 2040. Principal and interest are payable in annual installments of $113,027 beginning on January 1, 2010, with any unpaid principal and interest due at maturity. As of December 31, 2017 and 2016, the balance of the loan was $2,198,170 and $2,287,879, respectively. During the years ended December 31, 2017 and 2016, interest expense totaled $22,741 and $23,869, respectively, and is included in interest on mortgages payable on the accompanying consolidated statements of activities. As of December 31, 2017 and 2016, interest of $301 and $878, respectively, remained payable and is included in accrued interest payable on the accompanying consolidated statements of financial position.

On October 3, 2007, EGII entered into a $2,250,000 loan agreement with the USDA. The loan bears interest at a rate of 1.00 percent per annum and matures January 1, 2040. Principal and interest are payable in annual installments of $84,770 beginning January 1, 2010 with any unpaid principal and interest due at maturity. As of December 31, 2017 and 2016, the balance was $1,614,297 and $1,679,777, respectively, which includes unamortized debt issuance costs of $36,963 and $38,738, respectively. During the years ended December 31, 2017 and 2016, interest expense totaled $18,856 and $19,701, respectively, which includes amortization of debt issuance costs of $1,774 and $1,774, respectively, and is included in interest on mortgages payable on the accompanying consolidated statements of activities. As of December 31, 2017 and 2016, interest of $226 and $659, respectively, remained payable and is included in accrued interest payable on the accompanying consolidated statements of financial position.

On May 3, 2002, MSV entered into a $3,280,000 loan agreement with the FHFC for the construction of the project. The funds were provided by the FHFC under the HOME Investment Partnerships Program (HOME). The loan is non-interest bearing and requires a single balloon payment due on May 3, 2035. As of December 31, 2017 and 2016, the balance of the loan was $3,280,000 and $3,280,000, respectively.

On October 31, 2007, EGII entered into a $3,500,000 loan agreement with the FHFC. The funds were provided by the FHFC under the SAIL Program for the construction of Phase III of the EGA project. The loan bears interest at a rate of 1.00 percent per annum and matures January 1, 2040. The loan requires annual payments based on the actual cash flow of the phase, as defined. As of December 31, 2017 and 2016, the balance of the loan was $3,500,000 and $3,500,000, respectively. During the years ended December 31, 2017 and 2016, interest expense totaled $35,000 and $34,897, respectively. As of December 31, 2017 and 2016, interest of $237,985 and $227,230, respectively, remained payable and is included in accrued interest payable on the accompanying consolidated statements of financial position.

On July 1, 2007, EGALP entered into a SHIP loan agreement with Collier County, for $442,000 to fund the construction of the project. The loan is non-interest bearing and requires no payments for the first six years. Beginning December 31, 2014, annual principal payments of $31,571 are required through maturity on December 31, 2028. As of December 31, 2017 and 2016, the balance was $315,714 and $347,286, respectively.

On December 7, 2015 EGALP entered into a promissory note with City LIII Tax Credit Fund II, LLC (Investor limited partner) for $100,000. The note does not bear interest and matures on December 31, 2023. As of December 31, 2017 and 2016, the balance was $42,206 and $42,206, respectively.

<u>Notes and Mortgages Payable under LMHC are as follows:</u>

On September 22, 2000, LMHC entered into a series of loans and grants with the USDA to construct MV. USDA loans of $3,255,480 and USDA grants of $1,919,520 were combined with a $342,000 grant from the FHLBA to provide construction funds for the Family Units. The loans bear interest at a rate of 1.00 percent per annum and mature November 1, 2036. The loans are repayable in annual installments of $122,652 due on November 1 of each year. As of December 31, 2017 and 2016, the balance of the loans was $2,009,656 and $2,111,254, respectively. During the years ended December 31, 2017 and 2016, interest expense totaled $20,920 and $21,930, respectively, and is included in interest on mortgages payable on the accompanying consolidated statements of activities. As of December 31, 2017 and 2016, interest of $3,799 and $3,933, respectively, remained payable and is included in accrued interest payable on the accompanying consolidated statements of financial position.

On November 13, 2009, LMHC entered into a $2,910,000 loan agreement with the USDA for the construction of MV4. The loan bears interest at a rate of 1.00 percent per annum and matures January 1, 2042. The loan requires annual interest payments beginning on January 1, 2010. Principal and interest will be payable in annual installments of $109,712 beginning on January 1, 2012, with any unpaid principal and interest due at maturity. As of December 31, 2017 and 2016, the balance was $2,266,405 and $2,349,619, respectively, which includes unamortized debt issuance costs of $59,189 and $61,566, respectively. During the years ended December 31, 2017 and 2016, interest expense totaled $26,393 and $27,244, respectively, which includes amortization of debt issuance costs of $2,377 and $2,377, respectively, and is included in interest on mortgages payable on the accompanying consolidated statements of activities. As of December 31, 2017 and 2016, interest of $2,612 and $2,642, respectively, remained payable and is included in accrued interest payable on the accompanying consolidated statements of financial position.

Loans of $580,000 were obtained from the Hillsborough County Community Improvement District (HCCID) to purchase three parcels of land and to pay the water and waste-water fees for the site of MV and MV4. The loans consist of $300,000 obtained on February 21, 2001, $80,000 obtained on October 9, 2001, and $200,000 obtained on February 9, 2004. The loans are non-interest bearing for the first 5 years, 1.00 percent interest for years 6 through 10, 1.25 percent interest for years 11 through 20, 1.50 percent interest for years 21 through 30, and 2.00 percent for years 31 through 40. The $300,000 and $80,000 loans require annual interest payments based on the available cash flow of MV and MV4, respectively, as defined. Any unpaid interest accrues interest at the AFR. The $200,000 accrues interest annually on the principal balance which is payable upon disposal of the MV project. The loans mature upon disposition of property. As of December 31, 2017 and 2016, the balance of the loans was $579,895 and $579,895, respectively. During the years ended December 31, 2017 and 2016, interest expense totaled $8,075 and $8,211, respectively, and is included in interest on mortgages payable on the accompanying consolidated statements of activities. As of December 31, 2017 and 2016, interest of $11,759 and $10,530, respectively, remained payable and is included in accrued interest payable on the accompanying consolidated statements of financial position. During the year ended December 31, 2016, accrued interest of $18,181 was forgiven by HCCID.

On November 30, 2009, MV4 entered into a $1,250,000 loan agreement with the FHFC under the SAIL Program for the construction of the project. The loan bears interest at a fixed rate of 1.00 percent per annum and matures November 30, 2042. The loan requires annual interest payments based on the available cash flow of MV4, as defined. As of December 31, 2017 and 2016, the balance of the loan was $1,250,000 and $1,250,000, respectively. For the years ended December 31, 2017 and 2016, interest expenses totaled $12,500 and $12,500, respectively, and is included in interest on mortgages payable on the accompanying consolidated statements of activities. As of December 31, 2017 and 2016, interest of $85,611 and $73,928, respectively, remained payable and is included in accrued interest payable on the accompanying consolidated statements of financial position.

Notes and Mortgages Payable under EHT are as follows:

On October 21, 2016, OM entered into a mortgage note with Community Housing Capital, Inc. in the original amount of $1,500,000. The note bears interest at the 5.85 percent per annum and matures on October 21, 2031. As of December 31, 2017 and 2016, $1,461,339 and $543,940 of principal remained payable, which includes unamortized debt issuance costs of $4,937 and $40,562, respectively. During the years ended December 31, 2017 and 2016, interest expense totaled $59,694 and $3,743, which includes capitalized interest of $54,069 and $3,055 and amortization of debt issuance costs of $5,625 and $688, respectively, and is included in interest on mortgages payable on the accompanying consolidated statements of activities.

On October 25, 2016, OM entered into a $2,215,000 loan agreement with the FHFC under the SAIL Program for the construction of the project. The loan bears interest at a fixed rate of 1.00 percent per annum and matures October 25, 2046. The loan requires annual interest payments based on the available cash flow of OM, as defined. As of December 31, 2017 and 2016, the balance of the loan was $1,511,533 and $754,237, which includes unamortized debt issuance costs of $90,219 and $66,744, respectively. As of December 31, 2017 and 2016, interest expense totaled of $6,525 and $1,131, respectively, which is made up entirely of amortization of debt issuance costs, and is included in interest on mortgages payable on the accompanying consolidated statements of activities.

On October 25, 2016, OM assumed a $526,648 loan from with the FHFC under the SAIL Program from Timber Ridge of Immokalee, LP in the original amount of $500,000. The loan bears interest at a fixed rate of 1.00 percent per annum and matures October 25, 2046. The loan requires annual interest payments based on the available cash flow of OM, as defined. As of December 31, 2017 and 2016, the balance of the loan was $514,273 and $513,373, which includes unamortized debt issuance costs of $12,375 and $13,275, respectively. As of December 31, 2017 and 2016, interest expense totaled of $900 and $225, respectively, which is made up entirely of amortization of debt issuance costs, and is included in interest on mortgages payable on the accompanying consolidated statements of activities.

Tax Credit Assistance Program (TCAP) Loans

On April 29, 2010, OGA-LTD entered into a TCAP agreement with the FHFC for an amount not to exceed $3,430,567, consisting of a TCAP Loan ("TCAP Loan") of $2,750,567 and a TCAP/Supplemental Loan ("Supplemental Loan") of $680,000.

The TCAP Loan bore interest at a rate of zero percent through May 1, 2012 and is non-amortizing during the term of the note. Commencing on May 1, 2012, annual interest payments were due at a rate of .33% simple interest on the outstanding principal balance, subject to available cash flow, as defined. As of January 1, 2014, the for-profit borrower withdrew and the interest rate was reduced to 0 percent. Unpaid interest and principal is due on February 16, 2027.

The Supplemental Loan bears no interest and is non-amortizing during the term of the note, with a balloon payment due and payable on April 29, 2025. As of December 31, 2017 and 2016, the outstanding principal balance was $3,407,085 and $3,404,262, respectively, which includes unamortized debt issuance costs of $23,482 and $26,305, respectively. During the years ended December 31, 2017 and 2016, interest expense totaled $2,823 and $2,823, respectively, which is made up entirely of amortization of debt issuance costs, and is included in interest on mortgages payable on the accompanying consolidated statements of activities.

On April 7, 2010, CCA-LTD entered into a TCAP agreement with the FHFC for an amount not to exceed $3,675,167, consisting of a TCAP Loan of $2,995,167 and a Supplemental Loan of $680,000.

The TCAP Loan bore interest at a rate of zero percent through May 1, 2012 and is non-amortizing during the term of the note. Commencing on May 1, 2012, annual interest payments were due, subject to available cash flow, as defined, at a blended rate of 1.0% simple interest per annum on the portion of the development determined by the FHFC to be owned by a for-profit borrower, and 0% interest on the portion of the development determined by the FHFC to be owned by a non-profit borrower on the outstanding principal balance. As of January 1, 2014, the for-profit borrower withdrew and the interest rate was reduced to 0 percent. Unpaid interest and principal is due on February 16, 2027.

The Supplemental Loan bears interest at a rate of 0% simple interest per annum on the outstanding principal balance and is non-amortizing during the term of the note, with a balloon payment due and payable on April 7, 2025. As of December 31, 2017 and 2016, the outstanding principal balance was $3,646,121 and $3,642,174, respectively, which includes unamortized debt issuance costs of $29,046 and $32,993, respectively. During the years ended December 31, 2017 and 2016, interest expense totaled $3,947 and $3,947, respectively, which is made up entirely of amortization of debt issuance costs, and is included in interest on mortgages payable on the accompanying consolidated statements of activities.

Tax Credit Exchange Program (TCEP) Loans

On April 29, 2010, OGA-LTD entered into a TCEP agreement with the FHFC for an amount not to exceed $12,674,248. The TCEP loan bears no interest and is non-amortizing during the term of the note. As of December 31, 2017 and 2016, the outstanding principal balance was $6,685,928 and $7,521,977, respectively, which includes unamortized debt issuance costs of $73,670 and $82,571, respectively.

On April 7, 2010, CCA-LTD entered into a TCEP agreement with the FHFC for an amount not to exceed $10,242,500. The TCEP loan bears interest at rate of zero percent and is non-amortizing during the term of the note. As of December 31, 2017 and 2016, the outstanding principal balance was $5,402,547 and $6,078,659, respectively, which includes unamortized debt issuance costs of $60,122 and $66,843, respectively.

Under the TCEP loan agreements, loan principal is forgiven annually over the 15-year tax credit compliance period. Forgiveness is subject to OGA-LTD and CCA-LTD maintaining compliance with Section 42. Prior to being forgiven the remaining outstanding portion of the loans that has not been forgiven is subject to repayment in the event OGA-LTD and CCA-LTD fail to maintain compliance. No principal payments are required to be paid during the loan terms. The loan agreements provide FHFC with a security interest in the buildings and improvements of the projects. The loans are subordinated to the first mortgages.

Loan proceeds funded with Section 1602 program funds are intended to assist with payment of development costs of LIHTC properties. In exchange for the funds received, OGA-LTD and CCA-LTD have agreed to operate their properties in accordance with Section 42. Under the American Recovery and Reinvestment Act, portions of the loans which have been forgiven are considered government assistance related to assets and are considered non-taxable income. OGA-LTD and CCA-LTD will record the portions of their loans which have been forgiven as a deferred liability which will be recognized as tax-exempt income based on the total amount of the loan expected to be forgiven on a straight line basis over the depreciable life of the buildings and improvements of the projects. The TCAP and TCEP loans are serviced by Seltzer Management Group, Inc.

Home Loans

On April 29, 2010, OGA-LTD entered into a HOME loan agreement with the FHFC for an amount not to exceed $115,900. Effective January 1, 2014, Florida Housing reduced the interest rate to zero percent. The entire unpaid principal balance is due on February 16, 2030, the maturity date. As of December 31, 2017 and 2016, the outstanding principal balance was $92,935 and $89,851, respectively, which includes unamortized debt issuance costs of $22,965 and $26,049, respectively. During the years ended December 31, 2017 and 2016, interest expense totaled $3,084 and $3,084, respectively, which is made up entirely of amortization of debt issuance costs, and is included in interest on mortgages payable on the accompanying consolidated statements of activities.

On April 7, 2010, CCA-LTD entered into a HOME loan agreement with the FHFC, for an amount not to exceed $130,000. Effective January 1, 2014, Florida Housing reduced the interest rate to zero percent. The entire unpaid principal balance is due on February 16, 2027, the maturity date. As of December 31, 2017 and 2016, the outstanding principal balance was $107,329 and $104,521, respectively, which includes unamortized debt issuance costs of $22,671 and $25,479, respectively. During the years ended December 31, 2017 and 2016, interest expense totaled $2,808 and $2,808, respectively, which is made up entirely of amortization of debt issuance costs, and is included in interest on mortgages payable on the accompanying consolidated statements of activities.

Notes and Mortgages Payable under PCSH are as follows:

On September 17, 2013, PCSH received a firm commitment for HUD financing in the amount of $3,837,200. As of December 31, 2017 and 2016, $2,909,422 and $1,694,247, respectively, had been received and $2,909,442 and $1,694,247, respectively, remains outstanding.

Notes and Mortgages Payable under FNPS are as follows:

EP has a mortgage note payable to the USDA, bearing interest at a rate of 1 percent per annum and maturing on February 11, 2043. Annual installments of principal and interest in the amount of $11,303 are due beginning January 1, 2013, with any unpaid principal and interest due at maturity. The USDA mortgage is collateralized by a first lien on the land, buildings and improvements, and an assignment of leases, rents and profits of the Organization. The balance of the mortgage payable at December 31, 2017 and 2016 was $248,675 and $257,502, respectively. During the years ended December 31, 2017 and 2016, interest expense totaled $2,476 and

$2,640, respectively, and is included in interest on mortgages payable on the accompanying consolidated statements of activities

EP entered into a mortgage note payable to the Florida Housing Finance Agency, State Apartment Incentive Loan Program (S.A.I.L.) with interest at zero percent, defaulting to 18 percent should occupancy by qualified occupants fall below 80 percent. Repayment of principal and interest is determined annually in August for the preceding calendar year by the Florida Housing Finance Agency, based upon actual cash flow of the Project, with final payment of principal and unpaid interest due February 2043. The balance of the mortgage payable at December 31, 2017 and 2016 was $3,187,756 and $3,187,756, respectively. The Florida Housing Finance Agency mortgage is collateralized by a second lien on the land, buildings and improvements.

The estimated aggregate principal maturities of the promissory and mortgage notes payable subsequent to December 31, 2017 are as follows:

	ECA	BCHC	LMHC	EHT	PCSH	FNPS	Total
2018	$ 668,301	$ 270,493	$ 189,030	$ 2,994,059	$ 2,909,442	$ 8,821	$ 7,040,146
2019	680,802	272,901	190,943	1,527,783	-	8,911	2,681,340
2020	693,832	275,333	192,876	1,527,783	-	9,002	2,698,826
2021	707,426	277,790	194,828	1,527,783	-	9,094	2,716,921
2022	721,625	280,273	196,800	1,527,783	-	9,186	2,735,667
Thereafter	20,242,171	11,075,629	5,200,668	14,503,386	-	3,391,417	54,413,271
Total	23,714,157	12,452,419	6,165,145	23,608,577	2,909,442	3,436,431	72,286,171
Less unamortized debt issuance costs	(194,770)	(36,963)	(59,189)	(339,487)	-	-	(630,409)
	23,519,387	12,415,456	6,105,956	23,269,090	2,909,442	3,436,431	71,655,762
Less current maturities	(668,301)	(270,493)	(189,030)	(2,994,059)	(2,909,442)	(8,821)	(7,040,146)
Net long-term portion	$ 22,851,086	$ 12,144,963	$ 5,916,926	$ 20,275,031	$ -	$ 3,427,610	$ 64,615,616

All loans noted above are secured by the underlying value of the real estate collateral, improvements, easements of other interests, assignments of rents and leases and personal property.

NOTE 6 - ASSET MANAGEMENT FEE

FHFC, in its capacity as asset manager of the OGA-LTD and CCA-LTD projects, is to be paid an annual cumulative asset management fee of $3,000 per project, per year, commencing on the closing dates. The asset management fee is paid to the FHFC or the appointed loan servicer for reviewing informational reports, financial statements, and other financial, program, and compliance reports as required by TCAP. The fee is payable to the extent of available cash flow and unpaid fees accrue without interest. During 2017 and 2016, asset management fees of $3,000 and $3,000, respectively, were incurred by OGA-LTD and $3,000 and $3,000, respectively, remained payable. During 2017 and 2016, asset management fees of $3,000 and $3,000, respectively, were incurred by CCA-LTD and $3,000 and $3,000, respectively, remained payable. These amounts are included in accounts payable on the accompanying consolidated statements of financial position.

NOTE 7 - PARTNER'S CAPITAL CONTRIBUTIONS

Live Oak Villas, Ltd.

Pursuant to the partnership agreement, the investor limited partner of LOVI-LTD was required to make capital contributions of $7,295,173. As of December 31, 2017 and 2016, all required capital contributions had been received. In addition to the required capital contributions, LOVI-LTD received an upward tax credit adjuster of $117,419 during 2006.

Live Oak Villas II, Ltd.

Pursuant to the partnership agreement, the investor limited partner of LOVII-LTD was required to make capital contributions of $11,449,205. As of December 31, 2017 and 2016, all required capital contributions had been received. In addition to the required capital contributions, LOVII-LTD received an upward tax credit adjuster of $35,734 during 2009.

Oaks at Shannon's Crossing, LP

Pursuant to the partnership agreement, the investment limited partner of OSC is required to make capital contributions of $9,455,565. As of December 31, 2017 and 2016, the investor limited partner had made capital contributions of $9,455,565 and $9,455,565, respectively, less a downward tax credit adjuster of $435,011 received during 2009.

Eden Gardens Apartments, LP

Pursuant to the partnership agreement, the limited partner of EGALP is required to make capital contributions of $2,840,716 less a downward adjuster of $5,247. As of December 31, 2017 and 2016, the limited partner had made contributions of $2,835,469 and $2,835,469. The total capital contribution required by the limited partner is subject to adjustment if certain annual tax credit benchmarks are not attained, as defined.

Orchid Grove Apartments, Ltd.

Pursuant to the partnership agreement, the partners of OGA-LTD are required to make aggregate capital contributions totaling $100. The limited partner is required to a make capital contribution of $99.99, which remains payable as of December 31, 2017 and 2016. The managing general partner is required to make a capital contribution of $0.0033 and OA is required to make a capital contribution of $0.0067, which has been paid as of December 31, 2017 and 2016.

Cypress Cove Apartments, Ltd.

Pursuant to the partnership agreement, the partners of CCA-LTD are required to make aggregate capital contributions totaling $100. The limited partner is required to a make capital contribution of $99.99, the special limited partner is required to make a capital contribution of $0.0033, and CC is required to make a capital contribution of $0.0067. As of December 31, 2017 2016, the capital contributions owed by the limited partner have not been paid. Upon achievement of stabilization, the limited partner was required to contribute an additional $650 to CCA-LTD. During 2011, this additional contribution was paid.

NOTE 8 - PENSION PLAN

The Corporation has a 401(k) profit sharing plan (the Plan) for the exclusive benefit of its employees. The Plan covers all employees who have attained the age of 21 and completed three months of service. The Corporation provides qualified non-elective contributions of 3 percent of compensation for all eligible employees. Additional discretionary contributions of 4.3 percent of compensation up to $21,000 and 8.6 percent of compensation in excess of $21,000 may be made by the Corporation. The additional contributions vest proportionately over a three-year period. The Corporation's contributions for the years ended December 31, 2017 and 2016 were $193,778 and $168,737, respectively, and are included in project administration expenses on the accompanying consolidated statements of activities.

NOTE 9 - PROPERTY MANAGEMENT FEES

Professional Management, Inc. is an unrelated management company that oversees the operations of LOVI-LTD, LOVII-LTD, OGA-LTD, and CCA-LTD. The current management agreements for LOVI-LTD and LOVII-LTD provide for monthly fees equal to the greater of $2,500 or 5 percent of gross collections, as defined. The current management agreements for OGA-LTD and CCA-LTD provide for monthly fees equal to the greater of $3,500 or 5 percent of gross collections, as defined. For the years ended December 31, 2017 and 2016, property management fees of $156,072 and $150,665, respectively, were incurred and $2,792 and $1,649, respectively remained payable and are included in accrued expenses on the accompanying consolidated statements of financial position.

NOTE 10 - CONCENTRATION OF CREDIT RISK

The Corporation maintains its cash balances in multiple financial institutions. At times, these balances may exceed the federal insurance limits; however, the Corporation has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these balances as of December 31, 2017 or 2016.

NOTE 11 - CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Corporation's principal assets are its rental units. The Corporation's operations are concentrated in the affordable housing real estate market. In addition, the Corporation operates in a heavily regulated environment. The operations of the projects are subject to the administrative directives, rules, and regulations of federal, state and local regulatory agencies, including, but not limited to, Rural Development and the State Housing Agency. Such administrative directives, rules and regulations are subject to change by an Act of Congress or an administrative change mandated by Rural Development or the State Housing Agency. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Farm Labor Requirement

In accordance with the loan agreements with the USDA, EFV, OSC, MSV, EGALP, MV and LOVI-LTD designated their projects as farm labor projects. 100 percent of the EFV, OSC, MSV and EGALP units and 62 of the MV units must be rented to eligible farm workers, as defined. In 2013, the USDA granted OSC a permanent exemption from this requirement. 60 percent of LOVI-LTD's units must be rented to eligible farm workers, as defined.

Operating Deficit Guaranty

In connection with the development of the tax credit projects, LOVI, LOVII and SCL are required to loan the respective partnerships amounts to cover operating deficits for 36 months following rental achievement, as defined. The maximum amount of operating loans ranges from $175,000 to $325,000 and advances are repayable only from available cash flows, as defined. The operating deficit expired on February 28, 2012. Any loan made after that date is considered a due to affiliate. During 2017 and 2016, ECA had loans of $105,000 and $105,000, respectively, to LOVII-LTD (see also Note 4). The balances between ECA and LOVII-LTD have been eliminated and are not included on the accompanying consolidating statements of financial position.

Pursuant to the mortgage loan documents, OA and CC are required to advance funds to their respective partnerships to cover operating deficits of the related projects. OA and CC are liable to fund 20% of any operating deficits of their respective partnerships, until such time that the managing general partners are released from their guarantees under the mortgage loan documents by the FHFC. Any advances will be treated as subordinate loans repayable with interest. As of December 31, 2017 and 2016, no operating deficit advances have been made.

Pursuant to the partnership agreement, CSS is required to loan EGALP amounts not to exceed $200,000 to cover operating deficits of the project beginning with the achievement of breakeven operations, as defined, and continuing for five years or the achievement of a debt coverage ratio of 1 to 1 over a consecutive 12-month period, whichever is later. Operating deficit advances are non-interest bearing and are repayable only from available cash flows, as defined. As of December 31, 2017 and 2016, no operating deficit advances have been made.

Development Deficit Guaranty

LOVII, SCL, CSS, OA, and CC have guaranteed the performance and payment obligations of the developer under the development agreement to the respective partnerships and their limited partners. As of December 31, 2017 and 2016, no development deficit advances have been made.

Operating Reserve

Pursuant to the partnership agreement of EGALP, CSS is required to establish and maintain an initial operating reserve of no less than $50,000. Funds are held in an interest bearing account at Fifth/Third Bank. As of December 31, 2017 and 2016, the operating reserve had not been funded (see also Note 3).

Exchange Funds

The exchange funds of the affordable housing partnerships are contingent on their ability to maintain compliance with applicable sections of Section 42. Failure to maintain compliance with occupant eligibility, and/or unit gross rent, or to correct noncompliance within a specified time period could result in repayment of exchange funds.

Low-income Housing Tax Credits

The low-income housing tax credits of the affordable housing partnerships are contingent on their ability to maintain compliance with applicable sections of Section 42 of the Internal Revenue Code. Failure to maintain compliance with tenant income eligibility and rent limits or to correct instances of noncompliance within a reasonable time period could result in recapture of previously claimed tax credits plus interest. In addition, any such noncompliance, if it were to occur, likely would result in an adjustment to the contributed capital of the limited partners.

Construction Costs Payable

HP

During the years ended December 31, 2017 and 2016, HP incurred construction costs related to the development of the project. As of December 31, 2017 and 2016, $0 and $227,183, respectively, remained payable and are included in construction costs payable on the accompanying consolidated statement of financial position.

OM

During the years ended December 31, 2017 and 2016, OM incurred construction costs related to the development of the project. As of December 31, 2017 and 2016, $590 and $28,685, respectively, remained payable and are included in construction costs payable on the accompanying consolidated statement of financial position.

NOTE 13 - LITIGATION

In April 2010, Watermark Construction, LP (WaterMark) placed liens on all three phases of the EGA project, and filed litigation against the Corporation for $600,000. The litigation alleges the Corporation improperly retained liquidated damages due to Watermark's late completion of the EGA project. The Corporation planned to defend the litigation and file a counterclaim against Watermark. During 2012, Watermark added the architect and engineer to the lawsuit. The case was tried before a jury in August 2014 and returned a verdict in favor of Watermark for a total judgement of $263,683. The jury also designated Watermark as the prevailing party of the lawsuit and awarded attorney’s fees and costs estimated at $2,000,000. Per the development agreements, any such costs should follow the developer fee percentage allocated to the co-developers joint and severable.

In August 2015, all three phases filed a voluntary petition under Chapter 11 of the United States Bankruptcy Code due to insufficient cash flows from operations to satisfy the total judgement in favor of Watermark. Prior to confirmation of a plan of reorganization, in December 2015, the phases reached a settlement agreement with Watermark in the amount of $1,909,326. The settlement agreement was approved and the voluntary petition was dismissed by the court prior to December 31, 2015 and the liens against the properties were removed. During 2016, the phases reached a settlement with R.E. Chisholm Architects, Inc. in the total amount of $105,000, of which $5,834 was allocated to RNI to cover expenses related to the litigation. During the years ended December 31, 2016 and 2015, the phases recognized a total of $99,166 and $727,285, respectively, in legal settlement income in relation to the settlement of the litigation.

During 2015, RNI fully reserved $726,915 of receivables due from JR Beneficial for legal costs incurred.

NOTE 14 - SUBSEQUENT EVENTS

Events that occur after the consolidated statement of financial position date but before the consolidated financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the consolidated statement of financial position date are recognized in the accompanying consolidated financial statements. Subsequent events which provide evidence about conditions that existed after the consolidated statement of financial position date, require disclosure in the accompanying notes. Management evaluated the activity of the Corporation through May 25, 2018 (the date the consolidated financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the consolidated financial statements or disclosure in the notes to the consolidated financial statements.

SUPPLEMENTAL INFORMATION

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2017

	RNI	ECA	BCHC	LMHC	EHT	EHG	PCSH	FNPS	Eliminations	Total
ASSETS										
CURRENT ASSETS										
Cash and cash equivalents	$ 2,723,898	$ 1,107,615	$ 235,038	$ 168,841	$ 1,141,579	$ 113,411	$ 7,784	$ 156,731	$ -	$ 5,654,897
Accounts receivable - tenants	-	31,573	9,455	249	5,926	-	456	276	-	47,935
Rental assistance receivables	-	160,663	48,584	27,220	-	-	-	9,438	-	245,905
Miscellaneous receivables	112,560	201	-	-	70,410	110,187	-	400	-	293,758
Interest Receivable - affiliates	200,772	-	-	-	-	-	-	-	(200,772)	-
Due from affiliates	-	6,886	-	1,067	-	857,562	-	-	(855,330)	10,185
Notes receivable - affiliates	6,239,300	800,000	-	-	-	-	-	-	(7,039,300)	-
Developer fee receivable	602,065	-	-	-	-	-	-	-	(602,065)	-
Prepaid expenses	17,878	244,233	37,700	33,480	50,824	14,683	25	1,179	-	400,002
Total current assets	9,896,473	2,351,171	330,777	230,857	1,268,739	1,095,843	8,265	168,024	(8,697,467)	6,652,682
RESTRICTED DEPOSITS AND FUNDED RESERVES										
Tenant security deposits	-	351,680	73,388	47,500	173,309	-	855	20,575	-	667,307
Mortgage escrows	-	492,278	81,529	46,194	68,228	-	-	27,353	-	715,582
Replacement reserve	-	1,951,530	554,670	403,205	322,176	-	-	248,587	-	3,480,168
Debt Service reserve	-	549,722	552,301	30,365	-	-	-	-	-	1,132,388
Operating reserve	-	27,316	-	-	922,611	-	-	66,029	-	1,015,956
Other reserves and deposits	-	50,459	16,725	173,544	99,591	-	150,318	-	-	490,637
Total restricted deposits and funded reserves	-	3,422,985	1,278,613	700,808	1,585,915	-	151,173	362,544	-	7,502,038
PROPERTY AND EQUIPMENT										
Land	-	4,435,224	1,013,486	372,195	3,698,536	-	348,000	535,000	-	10,402,441
Land improvements	-	5,449,964	2,247,640	996,966	830,365	-	-	-	-	9,524,935
Buildings and improvements	-	89,403,747	22,844,293	10,314,497	24,076,259	-	-	5,859,336	(4,279,205)	148,218,927
Furniture and equipment	9,030	2,078,527	246,366	235,029	1,863,661	267,514	-	19,851	-	4,719,978
Construction in progress	-	577,320	-	-	2,661,721	-	3,710,284	-	-	6,949,325
Total property and equipment	9,030	101,944,782	26,351,785	11,918,687	33,130,542	267,514	4,058,284	6,414,187	(4,279,205)	179,815,606
Less accumulated depreciation	(8,847)	(31,779,651)	(6,500,017)	(3,394,286)	(6,285,057)	(201,506)	-	(1,445,673)	-	(49,615,037)
Total net propety and equipment	183	70,165,131	19,851,768	8,524,401	26,845,485	66,008	4,058,284	4,968,514	(4,279,205)	130,200,569
OTHER ASSETS										
Tax credit monitoring fees, net	-	128,789	30,060	-	-	-	-	-	-	158,849
Other assets	775,869	-	1,128	-	-	-	-	-	(757,235)	19,762
Total other assets	775,869	128,789	31,188	-	-	-	-	-	(757,235)	178,611
Total assets	$ 10,672,525	$ 76,068,076	$ 21,492,346	$ 9,456,066	$ 29,700,139	$ 1,161,851	$ 4,217,722	$ 5,499,082	$ (13,733,907)	$ 144,533,900

(continued)

Rural Neighborhoods, Inc. and Its Affiliates

CONSOLIDATING STATEMENT OF FINANCIAL POSITION - CONTINUED

December 31, 2017

LIABILITIES AND NET ASSETS	RNI	ECA	BCHC	LMHC	EHT	EHG	PCSH	FNPS	Eliminations	Total
CURRENT LIABILITIES										
Accounts payable	$ 82,176	$ 450,309	$ 150,895	$ 103,904	$ 81,046	$ 141,956	$ 271,290	$ 3,200	$ (802,685)	$ 482,091
Accrued expenses	43,454	215,861	64,785	35,064	68,442	211,450	-	11,945	(52,645)	598,356
Accrued interest payable	-	192,202	238,713	103,781	-	-	-	-	-	534,696
Accrued interest - affiliate notes payable	-	-	19,999	-	-	-	7,000	7,288	(34,287)	-
Construction costs payable	-	-	-	-	590	-	-	-	-	590
Current portion of mortgages payable	-	668,301	270,493	189,030	2,994,059	-	2,909,442	8,821	-	7,040,146
Total current liabilities	125,630	1,526,673	744,885	431,779	3,144,137	353,406	3,187,732	31,254	(889,617)	8,655,879
DEPOSITS AND PREPAID LIABILITY										
Tenant security deposits	-	351,680	73,388	47,500	173,309	-	997	20,475	-	667,349
Prepaid rent	-	39,861	17,199	17,667	16,925	-	-	-	-	91,652
Total deposits and prepaid liability	-	391,541	90,587	65,167	190,234	-	997	20,475	-	759,001
LONG-TERM LIABILITIES										
Due to affiliates	-	-	-	-	-	-	-	1,531	-	1,531
Developer fee payable	-	1,743,415	616,807	-	-	-	-	-	(768,550)	1,591,672
Notes payable - affiliate	-	2,937,872	2,355,228	-	423,000	100,000	1,018,200	205,000	(7,039,300)	-
Deferred revenue	-	-	-	-	6,684,048	-	-	-	-	6,684,048
Mortages payable, net of current portion	-	22,851,086	12,144,963	5,916,926	20,275,031	-	-	3,427,610	-	64,615,616
Total long-term liabilities	-	27,532,373	15,116,998	5,916,926	27,382,079	100,000	1,018,200	3,634,141	(7,807,850)	72,892,867
NET ASSETS										
Permanently restricted net assets	716,534	-	-	-	-	-	-	-	-	716,534
Unrestricted - non-controlling interest	-	17,453,088	1,609,206	-	(622,954)	-	-	-	-	18,439,340
Unrestricted - controlling interest	9,830,361	29,164,401	3,930,670	3,042,194	(393,357)	708,445	10,793	1,813,212	(5,036,440)	43,070,279
Unrestricted net assets	9,830,361	46,617,489	5,539,876	3,042,194	(1,016,311)	708,445	10,793	1,813,212	(5,036,440)	61,509,619
Total net assets	10,546,895	46,617,489	5,539,876	3,042,194	(1,016,311)	708,445	10,793	1,813,212	(5,036,440)	62,226,153
Total liabilities and net assets	$ 10,672,525	$ 76,068,076	$ 21,492,346	$ 9,456,066	$29,700,139	$ 1,161,851	$ 4,217,722	$ 5,499,082	$ (13,733,907)	$ 144,533,900

See independent auditor’s report.

Rural Neighborhoods, Inc. and Its Affiliates

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2016

	RNI	ECA	BCHC	LMHC	EHT	EHG	PCSH	FNPS	Eliminations	Total
ASSETS										
CURRENT ASSETS										
Cash and cash equivalents	$ 2,472,987	$ 1,097,249	$ 489,621	$ 140,248	$ 984,507	$ 121,526	$ 115,445	$ 162,368	$ -	$ 5,583,951
Accounts receivable - tenants	-	22,895	6,020	10,623	3,522	-	-	-	-	43,060
Rental assistance receivables	-	163,637	48,192	27,472	-	-	-	13,540	-	252,841
Miscellaneous receivables	5,000	-	-	-	62,359	-	-	-	-	67,359
Interest Receivable - affiliates	152,262	-	-	-	-	-	-	-	(152,262)	-
Grant receivables	-	-	453,785	-	-	-	-	-	-	453,785
Due from affiliates	2,000	-	-	-	-	694,019	-	-	(694,186)	1,833
Notes receivable - affiliates	6,372,478	800,000	-	-	-	-	-	-	(7,172,478)	-
Developer fee receivable	613,691	-	-	-	-	-	-	-	(613,691)	-
Prepaid expenses	21,324	223,581	30,244	28,538	36,164	13,299	-	1,375	-	354,525
Total current assets	9,639,742	2,307,362	1,027,862	206,881	1,086,552	828,844	115,445	177,283	(8,632,617)	6,757,354
RESTRICTED DEPOSITS AND FUNDED RESERVES										
Tenant security deposits	-	348,086	67,600	48,801	162,849	-	-	19,675	-	647,011
Mortgage escrows	-	440,462	73,334	46,874	72,266	-	-	29,112	-	662,048
Replacement reserve	-	2,889,643	624,723	381,493	273,579	-	-	246,089	-	4,415,527
Debt Service reserve	-	506,442	461,613	30,259	-	-	-	-	-	998,314
Operating reserve	-	27,283	-	-	956,865	-	-	65,336	-	1,049,484
Other reserves and deposits	-	51,309	89,675	155,655	83,652	-	139,946	-	-	520,237
Total restricted deposits and funded reserves	-	4,263,225	1,316,945	663,082	1,549,211	-	139,946	360,212	-	8,292,621
PROPERTY AND EQUIPMENT										
Land	-	4,435,224	1,013,486	372,195	3,698,536	-	348,000	535,000	-	10,402,441
Land improvements	-	5,449,964	2,229,170	996,966	820,365	-	-	-	-	9,496,465
Buildings and improvements	-	88,864,530	22,844,293	10,314,497	24,076,259	-	-	5,654,759	(4,279,205)	147,475,133
Furniture and equipment	9,030	2,083,295	246,307	235,029	1,863,661	279,541	-	4,101	-	4,720,964
Construction in progress	-	283,729	-	-	456,863	-	2,273,748	-	-	3,014,340
Total property and equipment	9,030	101,116,742	26,333,256	11,918,687	30,915,684	279,541	2,621,748	6,193,860	(4,279,205)	175,109,343
Less accumulated depreciation	(7,757)	(29,271,254)	(5,797,345)	(3,087,818)	(5,350,847)	(200,609)	-	(1,232,993)	-	(44,948,623)
Total net propety and equipment	1,273	71,845,488	20,535,911	8,830,869	25,564,837	78,932	2,621,748	4,960,867	(4,279,205)	130,160,720
OTHER ASSETS										
Tax credit monitoring fees, net	-	157,212	34,776	-	-	-	-	-	-	191,988
Other assets	773,769	-	-	-	-	-	-	-	(757,235)	16,534
Total other assets	773,769	157,212	34,776	-	-	-	-	-	(757,235)	208,522
Total assets	$ 10,414,784	$ 78,573,287	$ 22,915,494	$ 9,700,832	$ 28,200,600	$ 907,776	$ 2,877,139	$ 5,498,362	$ (13,669,057)	$ 145,419,217

(continued)

Rural Neighborhoods, Inc. and Its Affiliates

CONSOLIDATING STATEMENT OF FINANCIAL POSITION - CONTINUED

December 31, 2016

LIABILITIES AND NET ASSETS	RNI	ECA	BCHC	LMHC	EHT	EHG	PCSH	FNPS	Eliminations	Total
CURRENT LIABILITIES										
Accounts payable	$ 53,470	$ 413,697	$ 105,378	$ 99,319	$ 56,964	$ 10,970	$ 274,456	$ 3,852	$ (694,186)	$ 323,920
Accrued expenses	44,454	160,401	62,771	35,064	48,646	166,894	-	-	-	518,230
Accrued interest payable	-	188,302	229,359	91,033	-	-	-	-	-	508,694
Accrued interest - affiliate notes payable	-	-	-	-	-	-	7,000	-	(7,000)	-
Construction costs payable	-	-	227,183	-	28,685	-	-	-	-	255,868
Current portion of mortgages payable	-	656,300	268,108	187,135	1,527,783	-	1,694,247	8,732	-	4,342,305
Total current liabilities	97,924	1,418,700	892,799	412,551	1,662,078	177,864	1,975,703	12,584	(701,186)	5,949,017
DEPOSITS AND PREPAID LIABILITY										
Tenant security deposits	-	348,086	67,600	48,801	162,849	-	-	19,675	-	647,011
Prepaid rent	-	34,745	11,280	14,247	7,486	-	-	-	-	67,758
Total deposits and prepaid liability	-	382,831	78,880	63,048	170,335	-	-	19,675	-	714,769
LONG-TERM LIABILITIES										
Developer fee payable	-	1,737,875	616,807	-	-	-	-	-	(758,953)	1,595,729
Notes payable - affiliate	-	2,912,872	2,875,606	-	393,000	100,000	891,000	-	(7,172,478)	-
Deferred revenue	-	-	-	-	5,729,184	-	-	-	-	5,729,184
Mortages payable, net of current portion	-	23,484,316	12,412,567	6,103,633	21,125,211	-	-	3,436,526	-	66,562,253
Total long-term liabilities	-	28,135,063	15,904,980	6,103,633	27,247,395	100,000	891,000	3,436,526	(7,931,431)	73,887,166
NET ASSETS										
Permanently restricted net assets	1,016,534	-	-	-	-	-	-	-	-	1,016,534
Unrestricted - non-controlling interest	-	18,106,360	1,716,861	-	(699,982)	-	-	-	-	19,123,239
Unrestricted - controlling interest	9,300,326	30,530,333	4,321,974	3,121,600	(179,226)	629,912	10,436	2,029,577	(5,036,440)	44,728,492
Unrestricted net assets	9,300,326	48,636,693	6,038,835	3,121,600	(879,208)	629,912	10,436	2,029,577	(5,036,440)	63,851,731
Total net assets	10,316,860	48,636,693	6,038,835	3,121,600	(879,208)	629,912	10,436	2,029,577	(5,036,440)	64,868,265
Total liabilities and net assets	$ 10,414,784	$ 78,573,287	$ 22,915,494	$ 9,700,832	$ 28,200,600	$ 907,776	$ 2,877,139	$ 5,498,362	$ (13,669,057)	$ 145,419,217

See independent auditor's report.

Rural Neighborhoods, Inc. and Its Affiliates

CONSOLIDATING STATEMENT OF ACTIVITIES

Year ended December 31, 2017

	RNI	ECA	BCHC	LMHC	EHT	EHG	PCSH	FNPS	Eliminations	Total
Rental revenue										
Potential rental revenue	$ -	$ 7,151,226	$ 1,561,120	$ 1,058,520	$ 1,896,288	$ -	$ -	$ 359,305	$ -	$ 12,026,459
Less vacancies and concessions	-	(404,600)	(78,849)	(134,212)	(159,192)	-	-	-	-	(776,853)
Total rental revenue	-	6,746,626	1,482,271	924,308	1,737,096	-	-	359,305	-	11,249,606
Other revenue										
Application fees	-	18,850	3,930	12,986	13,279	-	-	3,427	-	52,472
Laundry and vending	-	103,399	-	-	93,991	7,747	-	-	-	205,137
Interest income	13,450	18,112	2,062	881	2,607	-	357	1,085	-	38,554
Interest income - related party	61,474	4,000	-	-	-	-	-	-	(65,474)	-
Tenant charges	-	63,587	12,533	98,909	34,181	-	-	2,188	-	211,398
Property management fees	-	-	-	-	-	698,772	-	-	(662,772)	36,000
Income from forgiveness of debt	-	-	-	-	572,919	-	-	-	-	572,919
Grant revenue	830,075	-	5,002	-	121,950	-	-	-	-	957,027
Miscellaneous revenue	191,060	92,895	130	-	8,975	373,280	-	460	(363,000)	303,800
Total other revenue	1,096,059	300,843	23,657	112,776	847,902	1,079,799	357	7,160	(1,091,246)	2,377,307
Expenses										
Operating and maintenance	-	2,665,938	529,452	226,694	618,726	45,443	-	136,679	-	4,222,932
Utilities	-	788,819	96,249	156,669	146,545	-	-	29,451	-	1,217,733
Project administration expenses	839,520	1,193,049	280,823	204,737	595,937	923,561	-	117,056	(363,000)	3,791,683
Management fees	-	510,784	115,452	85,284	107,324	-	-	32,574	(662,772)	188,646
Taxes and insurance	25,414	818,332	144,324	60,436	228,861	15,468	-	44,626	-	1,337,461
Bad debt expense	-	17,777	499	8,314	3,548	-	-	-	-	30,138
Total expenses	864,934	5,994,699	1,166,799	742,134	1,700,941	984,472	-	360,386	(1,025,772)	10,788,593
Income from operations	231,125	1,052,770	339,129	294,950	884,057	95,327	357	6,079	(65,474)	2,838,320
Non-operating expenses (income)										
Interest on note payable - affiliates	-	-	36,963	-	-	-	-	7,288	(44,251)	-
Interest on deferred developer fee	-	63,670	-	-	-	-	-	-	(21,223)	42,447
Interest on mortgages payable	-	460,192	91,937	67,888	41,334	-	-	2,476	-	663,827
Investor services management fee	-	6,524	-	-	-	-	-	-	-	6,524
Depreciation expense	1,090	2,513,165	704,472	306,468	934,210	16,794	-	212,680	-	4,688,879
Amortization expense	-	28,423	4,716	-	-	-	-	-	-	33,139
Total non-operating expenses	1,090	3,071,974	838,088	374,356	975,544	16,794	-	222,444	(65,474)	5,434,816
Change in net assets before non-controlling interest	230,035	(2,019,204)	(498,959)	(79,406)	(91,487)	78,533	357	(216,365)	-	(2,596,496)
Non-controlling interest in earnings of subsidiaries	-	653,272	107,655	-	(122,644)	-	-	-	-	638,283
Change in net assets attributable to Rural Neighborhoods, Inc.	230,035	(1,365,932)	(391,304)	(79,406)	(214,131)	78,533	357	(216,365)	-	$ (1,958,213)

See independent auditor’s report.

Rural Neighborhoods, Inc. and Its Affiliates

CONSOLIDATING STATEMENT OF ACTIVITIES

Year ended December 31, 2016

	RNI	ECA	BCHC	LMHC	EHT	EHG	PCSH	FNPS	Eliminations	Total
Rental revenue										
Potential rental revenue	$ -	$ 6,900,631	$ 1,399,690	$ 999,240	$ 1,376,140	$ -	$ -	$ 361,306	$ -	$ 11,037,007
Less vacancies and concessions	-	(561,568)	(67,898)	(45,731)	(26,048)	-	-	-	-	(701,245)
Total rental revenue	-	6,339,063	1,331,792	953,509	1,350,092	-	-	361,306	-	10,335,762
Other revenue										
Application fees	-	15,185	3,220	13,973	6,638	-	-	2,780	-	41,796
Laundry and vending	-	107,128	-	-	85,796	7,986	-	-	-	200,910
Interest income	16,697	26,134	1,933	929	2,658	79	356	864	-	49,650
Interest income - related party	23,067	4,000	-	-	-	-	-	-	(27,067)	-
Tenant charges	-	91,285	15,112	86,183	25,348	-	-	1,914	-	219,842
Property management fees	-	-	-	-	-	614,594	-	-	(578,594)	36,000
Income from forgiveness of debt	-	-	-	-	572,919	-	-	-	-	572,919
Developer fee income	80,752	-	-	-	-	-	-	-	(80,752)	-
Grant revenue	530,037	-	1,519,683	-	100,956	-	-	-	-	2,150,676
Miscellaneous revenue	266,977	200,637	150,057	30,570	287,282	170,665	-	-	(521,000)	585,188
Total other revenue	917,530	444,369	1,690,005	131,655	1,081,597	793,324	356	5,558	(1,207,413)	3,856,981
Expenses										
Operating and maintenance	-	2,224,861	255,544	218,119	355,772	12,400	-	114,655	-	3,181,351
Utilities	-	738,515	81,779	158,450	93,619	-	-	26,000	-	1,098,363
Project administration expenses	635,451	1,438,806	274,410	198,328	480,481	618,867	-	90,187	(521,000)	3,215,530
Management fees	-	477,632	102,648	61,620	87,359	-	-	30,780	(578,594)	181,445
Taxes and insurance	20,590	810,965	130,501	60,141	198,468	7,038	-	47,246	-	1,274,949
Bad debt expense	-	69,480	8,027	17,586	-	-	-	-	-	95,093
Total expenses	656,041	5,760,259	852,909	714,244	1,215,699	638,305	-	308,868	(1,099,594)	9,046,731
Income from operations	261,489	1,023,173	2,168,888	370,920	1,215,990	155,019	356	57,996	(107,819)	5,146,012
Non-operating expenses (income)										
Interest on note payable - affiliates	-	-	6,713	-	-	-	-	-	(6,713)	-
Interest on deferred developer fee	-	61,061	-	-	-	-	-	-	(20,354)	40,707
Interest on mortgages payable	-	471,868	94,739	69,885	30,328	-	-	2,640	-	669,460
Investor services management fee	-	6,334	-	-	-	-	-	-	-	6,334
Miscellaneous income	-	-	-	-	-	-	-	-	-	-
Legal settlement income	-	(5,950)	(93,216)	-	-	-	-	-	-	(99,166)
Depreciation expense	1,091	2,470,609	652,663	309,201	897,932	11,638	-	206,419	-	4,549,553
Amortization expense	-	28,422	4,715	-	-	-	-	-	-	33,137
Total non-operating expenses	1,091	3,032,344	665,614	379,086	928,260	11,638	-	209,059	(27,067)	5,200,025
Change in net assets before non-controlling interest	260,398	(2,009,171)	1,503,274	(8,166)	287,730	143,381	356	(151,063)	(80,752)	(54,013)
Non-controlling interest in earnings of subsidiaries	-	693,575	16,096	-	(132,866)	-	-	-	-	576,805
Change in net assets attributable to Rural Neighborhoods, Inc.	$ 260,398	$ (1,315,596)	$ 1,519,370	$ (8,166)	$ 154,864	$ 143,381	$ 356	$ (151,063)	$ (80,752)	$ 522,792

See independent auditor's report.

Rural Neighborhoods, Inc.

STATEMENT OF ACTIVITIES

Year ended December 31, 2017

	Unrestricted	Permanently Restricted	Total
OTHER REVENUE			
Interest income	$ 13,450	$ -	$ 13,450
Interest income - related party	61,474	-	61,474
Developer fee income	-	-	-
Grant revenue	830,075	-	830,075
Miscellaneous revenue	191,060	-	191,060
Total other revenue	1,096,059	-	1,096,059
EXPENSES			
Project administration expenses	839,520	-	839,520
Taxes and insurance	25,414	-	25,414
Total expenses	864,934	-	864,934
Income from operations	231,125	-	231,125
NON-OPERATING EXPENSES			
Depreciation expense	1,090	-	1,090
Total non-operating expenses	1,090	-	1,090
Change in net assets	$ 230,035	$ -	$ 230,035

See independent auditor’s report.

Rural Neighborhoods, Inc.

STATEMENT OF ACTIVITIES

Year ended December 31, 2016

	Unrestricted	Permanently Restricted	Total
OTHER REVENUE			
Interest income	$ 16,697	$ -	$ 16,697
Interest income - related party	23,067	-	23,067
Developer fee income	80,752	-	80,752
Grant revenue	288,503	241,534	530,037
Miscellaneous revenue	266,977	-	266,977
Total other revenue	675,996	241,534	917,530
EXPENSES			
Project administration expenses	635,451	-	635,451
Taxes and insurance	20,590	-	20,590
Total expenses	656,041	-	656,041
Income (loss) from operations	19,955	241,534	261,489
NON-OPERATING EXPENSES			
Depreciation expense	1,091	-	1,091
Total non-operating expenses	1,091	-	1,091
Change in net assets	$ 18,864	$ 241,534	$ 260,398

See independent auditor's report.

Rural Neighborhoods Inc
Schedules of Financial Position
December 31, 2017 and 2016

ASSETS

	2017	2016
Cash	$ (110,466)	$ 175,000
Loan Receivable HP	550,000	550,000
Loan Receivable PCSH	277,000	275,000
Total	$ 716,534	$ 1,000,000

LIABILITIES AND NET ASSETS

Net Assets - Permanently Restricted	$ 716,534	$ 1,016,534
Total	$ 716,534	$ 1,016,534

Rural Neighborhoods Inc
Statements of Activities
Years Ended December 31, 2016 and 2015

Revenue and Support	2017	2016
Capital Grant NeighborWorks BOY	$ 1,016,534	$ 865,530
Additions	-	241,534
Released - Unrestricted	(300,000)	(90,530)
Net Assets End of Year	$ 716,534	$ 1,016,534

During the years ended December 31, 2017 and 2016 Rural Neighborhoods received real estate restricted grants from NeighborWorks America of $0 and $225,000, respectively.

See independent auditor's report.

Rural Neighborhoods, Inc. and Its Affiliates

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended December 31, 2017

Federal Grantor/ (Pass-through Grantor)/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. Department of Agriculture Farm Labor Housing Loans and Grants Program	10.405		$ 23,556,613
U.S. Department of Agriculture Rural Rental Assistance Payments Program	10.427		3,185,166
U.S. Department of Treasury NeighborWorks America	21.000		614,063
U.S. Department of Housing and Urban Development Supportive Housing for the Elderly	14.157		2,909,442
Totals:			$ 30,265,284

See notes to schedule of expenditures of federal awards and independent auditor’s report.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended December 31, 2017

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Rural Neighborhoods, Incorporated and Its Affiliates under programs of the federal government for the year ended December 31, 2017. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Rural Neighborhoods, Incorporated and Its Affiliates, it is not intended to and does not present the consolidated statements of activities, changes in net assets, and cash flows of Rural Neighborhoods, Incorporated and Its Affiliates.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, the cost principles contained in OMB Circular A-122, "Cost Principles for Non-Profit Organizations" and the cost principles contained in the Uniform Guidance.

NOTE 3 - LOAN AND CAPITAL ADVANCE PROGRAM

Rural Neighborhoods, Incorporated and Its Affiliates have received direct loans under the federal programs as listed below. The loan balances outstanding at the beginning of the year are included in the federal expenditures presented in the schedule. Rural Neighborhoods, Incorporated and Its Affiliates received no additional loans during the year.

The balance of the loans outstanding at December 31, 2017 consists of:

CFDA Number	Program Name	Outstanding Balance at December 31, 2017
	U.S. Department of Agriculture	
	Farm Labor Housing	
10.405	Loans and Grants Program	$ 21,999,762

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Rural Neighborhoods, Inc. and Its Affiliates

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Rural Neighborhoods, Inc. and Its Affiliates, which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated May 25, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Rural Neighborhoods, Inc. and Its Affiliates' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rural Neighborhoods, Inc. and Its Affiliates' internal control. Accordingly, we do not express an opinion on the effectiveness of Rural Neighborhoods, Inc. and Its Affiliates' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Rural Neighborhoods, Inc. and Its Affiliates' consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control, that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Neighborhoods, Inc. and Its Affiliates' consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Rural Neighborhoods, Inc. and Its Affiliates' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rural Neighborhoods, Inc. and Its Affiliates' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Tidwell Group, LLC

Atlanta, Georgia
May 25, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

To the Board of Directors
Rural Neighborhoods, Inc. and Its Affiliates

Report on Compliance for Each Major Federal Program

We have audited Rural Neighborhoods, Inc. and Its Affiliates' compliance with the types of compliance requirements described in the *OMB Circular Compliance Supplement* that could have a direct and material effect on each of Rural Neighborhoods, Inc. and Its Affiliates' major federal programs for the year ended December 31, 2017. Rural Neighborhoods, Inc. and Its Affiliates' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Rural Neighborhoods, Inc. and Its Affiliates' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Rural Neighborhoods, Inc. and Its Affiliates' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Rural Neighborhoods, Inc. and Its Affiliates' compliance.

Opinion on Each Major Federal Program

In our opinion, Rural Neighborhoods, Inc. and Its Affiliates complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified above for the year ended December 31, 2017.

Report on Internal Control over Compliance

Management of Rural Neighborhoods, Inc. and Its Affiliates is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Rural Neighborhoods, Inc. and Its Affiliates' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Rural Neighborhoods, Inc. and Its Affiliates' internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a major federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a *material weakness* in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of our testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Tidwell Group, LLC

Atlanta, Georgia
May 25, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2017

A. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on the consolidated financial statements of Rural Neighborhoods, Inc. and Its Affiliates.

2. No significant deficiencies related to the audit of the consolidated financial statements were reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. No material weaknesses were reported.

3. No instances of noncompliance material to the consolidated financial statements of Rural Neighborhoods, Inc. and Its Affiliates were disclosed during the audit.

4. No significant deficiencies related to the audit of the major federal award programs were disclosed in the Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance. No material weaknesses were reported.

5. The auditor's report on compliance for the major federal award programs for Rural Neighborhoods, Inc. and Its Affiliates expresses an unmodified opinion.

6. There are no audit findings relative to the major federal award programs for Rural Neighborhoods, Inc. and Its Affiliates.

7. The programs tested as major programs included:

    a. U.S. Department of Agriculture Farm Labor Housing Loan and Grants Program, CFDA No. 10.405
    b. U.S. Department of Housing and Urban Development Supportive Housing for the Elderly, CFDA No. 14.157

8. The threshold for distinguishing Type A and B programs was $750,000.

9. Rural Neighborhoods, Inc. did not qualify as a low-risk auditee.

SCHEDULE OF THE STATUS OF PRIOR AUDIT FINDINGS, QUESTIONED COSTS, AND RECOMMENDATIONS (UNAUDITED)

December 31, 2017

1. Audit Report, dated May 12, 2017 , for the year ended December 31, 2016, issued by Tidwell Group, LLC:

   There are no open findings from the prior audit report.

2. There were no reports issued by USDA OIG or other Federal agencies or contract administrators during the period covered by this audit.

3. There were no letters or reports issued by USDA management during the period covered by this audit.