

**Metro Community Development, Inc.  
and Subsidiaries**

**Consolidated Financial Statements**

**June 30, 2017  
(With Summarized Comparative  
Information for 2016)**



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## **Independent Auditors' Report**

To the Board of Directors of  
Metro Community Development, Inc.  
Flint, Michigan

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Metro Community Development, Inc. and subsidiaries, which comprise the consolidated statement of financial position as of June 30, 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.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 audit 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 auditors' 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 Metro Community Development, Inc. and subsidiaries as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters:**

### **Report on Summarized Comparative Information**

We have previously audited Metro Community Development, Inc.'s 2016 financial statements, and our report dated September 30, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating statement of financial position and consolidating statement of activities are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2017 on our consideration of Metro Community Development, Inc. and subsidiaries' 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 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 Metro Community Development, Inc. and subsidiaries' internal control over financial reporting and compliance.

*Yeo & Yeo, P.C.*

Lansing, Michigan  
November 1, 2017

**Metro Community Development, Inc. and Subsidiaries**  
**Consolidated Statement of Financial Position**  
**June 30, 2017**  
**(With Summarized Comparative Information for June 30, 2016)**

|   | <u>2017</u>                | <u>2016</u>                |
|---|----------------------------|----------------------------|
| <b>Assets</b>   |                            |                            |
| Current assets  |                            |                            |
| Cash and cash equivalents                               | \$ 2,766,340               | \$ 2,081,030               |
| Certificates of deposit                                 | 492,818                    | 535,471                    |
| Deposit - Federal Home Loan Bank                        | 500,000                    | 500,000                    |
| Investments   | 1,813,537                  | 1,620,629                  |
| Prepaid expense   | 21,905                     | 16,000                     |
| Accounts receivable                                     | 423,623                    | 330,878                    |
| Prepaid development costs                               | 39,600                     | -                          |
| In-kind contributions receivable, current portion       | 43,992                     | -                          |
| Loans receivable, current portion                       | 417,597                    | 420,000                    |
|   | <u>6,519,412</u>           | <u>5,504,008</u>           |
| Total current assets                                    |                            |                            |
| Noncurrent assets                                       |                            |                            |
| Funded reserves   | 430,963                    | 296,834                    |
| In-kind contributions receivable                        | 7,332                      | -                          |
| Loans receivable, net of current portion and allowance  | 2,313,831                  | 2,451,445                  |
| Property and equipment, net of accumulated depreciation | 508,672                    | 19,667                     |
| Land development sites                                  | 18,327                     | 18,327                     |
|   | <u>3,279,125</u>           | <u>2,786,273</u>           |
| Total noncurrent assets                                 |                            |                            |
| <b>Total assets</b>                                     | <u><u>\$ 9,798,537</u></u> | <u><u>\$ 8,290,281</u></u> |

See Accompanying Notes to the Consolidated Financial Statements

**Metro Community Development, Inc. and Subsidiaries**  
**Consolidated Statement of Financial Position**  
**June 30, 2017**  
**(With Summarized Comparative Information for June 30, 2016)**

|   | <u>2017</u>                | <u>2016</u>                |
|---|----------------------------|----------------------------|
| <b>Liabilities and net assets</b>               |                            |                            |
| Current liabilities                             |                            |                            |
| Accounts payable                                | \$ 250,965                 | \$ 397,257                 |
| Accrued liabilities                             | 43,644                     | 46,222                     |
| Advance on grants                               | 178,425                    | 279,823                    |
| Notes payable, current portion                  | <u>84,795</u>              | <u>40,000</u>              |
| Total current liabilities                       | <u>557,829</u>             | <u>763,302</u>             |
| Noncurrent liabilities                          |                            |                            |
| Revolving loans                                 | 897,823                    | 915,013                    |
| Notes payable, net of current portion           | <u>881,040</u>             | <u>278,923</u>             |
| Total liabilities                               | <u>2,336,692</u>           | <u>1,957,238</u>           |
| Net assets                                      |                            |                            |
| Unrestricted:                                   |                            |                            |
| Undesignated                                    | 3,813,999                  | 3,066,015                  |
| Designated: loan programs                       | <u>2,706,956</u>           | <u>2,916,601</u>           |
| Total unrestricted net assets                   | 6,520,955                  | 5,982,616                  |
| Temporarily restricted                          | 307,438                    | 350,427                    |
| Permanently restricted                          | 35,000                     | -                          |
| Non-controlling interests:                      |                            |                            |
| Limited partners' equity in limited partnership | <u>598,452</u>             | <u>-</u>                   |
| Total net assets                                | <u>7,461,845</u>           | <u>6,333,043</u>           |
| <b>Total liabilities and net assets</b>         | <u><u>\$ 9,798,537</u></u> | <u><u>\$ 8,290,281</u></u> |

See Accompanying Notes to the Consolidated Financial Statements

**Metro Community Development, Inc. and Subsidiaries**  
**Consolidated Statement of Activities**  
**For the Year Ended June 30, 2017**  
**(With Summarized Comparative Information for June 30, 2016)**

|   |              |                           |                           | Totals     |            |
|---|--------------|---------------------------|---------------------------|------------|------------|
|   | Unrestricted | Temporarily<br>Restricted | Permanently<br>Restricted | 2017       | 2016       |
| <b>Support and revenues</b>                         |              |                           |                           |            |            |
| Local support                                       | \$ 407,976   | \$ 60,000                 | \$ -                      | \$ 467,976 | \$ 445,522 |
| State grants  | 168,650      | -                         | -                         | 168,650    | 109,490    |
| Other grants  | 80,211       | -                         | -                         | 80,211     | 85,476     |
| Federal grants                                      | 2,598,549    | -                         | -                         | 2,598,549  | 3,547,597  |
| NeighborWorks America                               | 214,500      | 50,000                    | 35,000                    | 299,500    | -          |
| Fees for services                                   | 161,553      | -                         | -                         | 161,553    | 143,135    |
| Interest income - loans receivable                  | 126,519      | -                         | -                         | 126,519    | 106,214    |
| Investment income                                   | 93,278       | -                         | -                         | 93,278     | 31,126     |
| In-kind contributions                               | 151,687      | 51,324                    | -                         | 203,011    | 15,494     |
| Rental income                                       | 71,471       | -                         | -                         | 71,471     | -          |
| Other income  | 5,486        | -                         | -                         | 5,486      | -          |
| Net assets released from restrictions               | 204,313      | (204,313)                 | -                         | -          | -          |
| Total support and revenues                          | 4,284,193    | (42,989)                  | 35,000                    | 4,276,204  | 4,484,054  |
| <b>Expenses</b>                                     |              |                           |                           |            |            |
| Salaries and wages                                  | 733,045      | -                         | -                         | 733,045    | 689,740    |
| Payroll taxes and fringe benefits                   | 209,100      | -                         | -                         | 209,100    | 207,357    |
| Professional fees                                   | 67,889       | -                         | -                         | 67,889     | 39,426     |
| Amortization and provision for deferred loan losses | 93,898       | -                         | -                         | 93,898     | 179,635    |
| Communications and marketing                        | 2,256        | -                         | -                         | 2,256      | 2,050      |
| Community projects                                  | 1,200        | -                         | -                         | 1,200      | 13,380     |
| Consultants and contracting                         | 260,570      | -                         | -                         | 260,570    | 236,348    |
| Insurance   | 8,632        | -                         | -                         | 8,632      | 6,346      |
| Memberships and subscriptions                       | 18,066       | -                         | -                         | 18,066     | 10,585     |
| Rent  | 39,970       | -                         | -                         | 39,970     | 52,429     |
| Equipment purchase and maintenance                  | 46,656       | -                         | -                         | 46,656     | 13,001     |
| Supplies and materials                              | 39,003       | -                         | -                         | 39,003     | 29,210     |
| Travel  | 35,962       | -                         | -                         | 35,962     | 25,742     |
| Telephone and utilities                             | 12,157       | -                         | -                         | 12,157     | 12,462     |
| Depreciation  | 10,995       | -                         | -                         | 10,995     | 333        |

(Continued on next page)

See Accompanying Notes to the Consolidated Financial Statements

**Metro Community Development, Inc. and Subsidiaries**  
**Consolidated Statement of Activities**  
**For the Year Ended June 30, 2017**  
**(With Summarized Comparative Information for June 30, 2016)**

|                                      | Unrestricted      | Temporarily<br>Restricted | Permanently<br>Restricted | Totals            |                   |
|--------------------------------------|-------------------|---------------------------|---------------------------|-------------------|-------------------|
|                                      |                   |                           |                           | 2017              | 2016              |
| <b>Expenses (continued)</b>          |                   |                           |                           |                   |                   |
| Neighborhood Impact Program expenses | \$ 140,472        | \$ -                      | \$ -                      | \$ 140,472        | \$ 85,476         |
| In-kind expenses                     | 151,687           | -                         | -                         | 151,687           | 104,254           |
| Stipends and site costs - YouthBuild | 20,281            | -                         | -                         | 20,281            | 45,291            |
| Chronic Homeless Initiative expenses | 57,965            | -                         | -                         | 57,965            | 116,514           |
| Emergency Shelter expenses           | -                 | -                         | -                         | -                 | 127,087           |
| HMIS expenses                        | 20,655            | -                         | -                         | 20,655            | 28,510            |
| Supportive housing expenses          | 1,622,524         | -                         | -                         | 1,622,524         | 1,690,599         |
| Other expenses                       | 153,168           | -                         | -                         | 153,168           | 50,647            |
| Total expenses                       | 3,746,151         | -                         | -                         | 3,746,151         | 3,766,422         |
| <b>Change in net assets</b>          | <u>\$ 538,042</u> | <u>\$ (42,989)</u>        | <u>\$ 35,000</u>          | <u>\$ 530,053</u> | <u>\$ 717,632</u> |

See Accompanying Notes to the Consolidated Financial Statements



**Metro Community Development, Inc. and Subsidiaries**  
**Consolidated Statement of Changes in Net Assets**  
**For the Year Ended June 30, 2017**  
**(With Summarized Comparative Information for June 30, 2016)**

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|   | <u>Unrestricted</u>        | <u>Temporarily<br/>restricted</u> | <u>Permanently<br/>restricted</u> | <u>Non-controlling<br/>interests</u> | <u>Total</u>               |
|---|----------------------------|-----------------------------------|-----------------------------------|--------------------------------------|----------------------------|
| <b>Balance - July 1, 2016</b>                                   | \$ 5,128,294               | \$ 487,117                        | \$ -                              | \$ -                                 | \$ 5,615,411               |
| Change in net assets  | <u>854,322</u>             | <u>(136,690)</u>                  | <u>-</u>                          | <u>-</u>                             | <u>717,632</u>             |
| <b>Balance - June 30, 2016</b>                                  | 5,982,616                  | 350,427                           | -                                 | -                                    | 6,333,043                  |
| Assumption of limited partnership                               | -                          | -                                 | -                                 | 598,749                              | 598,749                    |
| Change in net assets  | 538,042                    | (42,989)                          | 35,000                            | -                                    | 530,053                    |
| Attributable to non-controlling interest in limited partnership | <u>297</u>                 | <u>-</u>                          | <u>-</u>                          | <u>(297)</u>                         | <u>-</u>                   |
| <b>Balance - June 30, 2017</b>                                  | <u><u>\$ 6,520,955</u></u> | <u><u>\$ 307,438</u></u>          | <u><u>\$ 35,000</u></u>           | <u><u>\$ 598,452</u></u>             | <u><u>\$ 7,461,845</u></u> |

**Metro Community Development, Inc. and Subsidiaries**  
**Consolidated Statement of Cash Flows**  
**For the Year Ended June 30, 2017**  
**(With Summarized Comparative Information for June 30, 2016)**

|   | <u>2017</u>                | <u>2016</u>                |
|---|----------------------------|----------------------------|
| <b>Cash flows from operating activities</b>                 |                            |                            |
| Change in net assets  | \$ 530,053                 | \$ 717,632                 |
| Items not requiring cash                                    |                            |                            |
| Depreciation  | 10,995                     | 333                        |
| Amortization and provision for loan losses                  | 93,898                     | 179,635                    |
| Realized and unrealized (gain) loss on investments          | (41,468)                   | 28,457                     |
| Net in-kind - YouthBuild                                    | 151,687                    | 88,760                     |
| Change in operating assets and liabilities                  |                            |                            |
| Prepaid expenses  | (5,905)                    | -                          |
| Accounts receivable   | (92,745)                   | 78,645                     |
| Prepaid development costs                                   | (39,600)                   | -                          |
| In-kind receivable  | (51,324)                   | -                          |
| Loans receivable  | 140,017                    | (699,076)                  |
| Accounts payable  | (139,138)                  | (9,381)                    |
| Accrued expenses  | (2,578)                    | (21,826)                   |
| Advance on grants   | (101,398)                  | 646                        |
| Revolving loans   | (17,190)                   | (93,194)                   |
| Deferred revenue  | -                          | (21,361)                   |
| Net cash provided by operating activities                   | <u>435,304</u>             | <u>249,270</u>             |
| <b>Cash flows from investing activities</b>                 |                            |                            |
| Maturity (purchase) of certificates of deposit              | 42,653                     | (13,625)                   |
| Acquisition of equipment                                    | -                          | (20,000)                   |
| Purchase of investments                                     | (924,618)                  | (2,322,272)                |
| Proceeds from sale of investments                           | 773,178                    | 2,166,579                  |
| Net (deposits) withdrawals from funded reserves and escrows | (106,119)                  | 176,933                    |
| Net cash used by investing activities                       | <u>(214,906)</u>           | <u>(12,385)</u>            |
| <b>Cash flows from financing activities</b>                 |                            |                            |
| Proceeds from notes payable                                 | 517,000                    | 85,000                     |
| Principal payments on notes payable                         | (52,088)                   | (40,646)                   |
| Net cash provided by financing activities                   | <u>464,912</u>             | <u>44,354</u>              |
| Change in cash and cash equivalents                         | 685,310                    | 281,239                    |
| Cash and cash equivalents - beginning of year               | <u>2,081,030</u>           | <u>1,799,791</u>           |
| <b>Cash and cash equivalents - end of year</b>              | <u><u>\$ 2,766,340</u></u> | <u><u>\$ 2,081,030</u></u> |
| <b>Supplementary Cash Flow Information</b>                  |                            |                            |
| Cash paid for interest                                      | <u><u>\$ 8,911</u></u>     | <u><u>\$ 11,901</u></u>    |
| <b>Noncash Investing and Financing Activity</b>             |                            |                            |
| Assumption of property and equipment                        | \$ 500,000                 | \$ -                       |
| Assumption of funded reserves                               | \$ 28,010                  | \$ -                       |

See Accompanying Notes to the Consolidated Financial Statements

**Metro Community Development, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**June 30, 2017**  
**(With Summarized Comparative Information for June 30, 2016)**

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**Note 1 - Organization and Summary of Significant Accounting Policies**

**Organization**

Metro Community Development, Inc. (MCD), a nonprofit organization, was established August 21, 1992, by public, private and neighborhood organizations for the purpose of enhancing and expanding housing and community development initiatives for underserved people and communities. The following outlines the major service programs:

- **Asset Building:** Empowers families and local businesses to acquire assets and to achieve long term financial success. Includes foreclosure prevention and home purchase counseling as well as lending activities.
- **Community Building:** Establishes community partnerships for the creation of stable and vibrant neighborhoods and communities. Includes the Building Neighborhood Capacity Program and Flint Metro YouthBuild Program.
- **Coalition Building:** Creates housing opportunities and community strengthening through collaboration. Includes the Continuum of Care, Community Collaborative and Homeless Management Information Systems (HMIS) programs.

MCD established Metro Housing Partnership (MHP), a wholly owned subsidiary of the Organization whose purpose is to create quality affordable housing opportunities for low and moderate income families through single-family or multi-family developments and to strengthen and enhance communities. MHP was established in July 2014. During the year ended June 30, 2017, MHP acquired a .01% general partnership interest in Metawaneenee Hills Limited Partnership (MHLP).

MHLP is organized as a limited partnership to develop, own and operate a 24-unit affordable housing property in Flint, Michigan that has qualified for and was allocated low-income housing tax credits pursuant to Internal Revenue Code Section 42. MHP as the general partner has complete administrative control of MHLP and is the guarantor of the project obligations. Profit and loss is allocated between the general partner, MHP and the limited partner, National Equity Fund Assignment Corporation, by .01% and 99.99%, respectively.

Collectively, MCD, MHP and MHLP shall be referred to as the "Organization".

**Principles of Consolidation**

The consolidated financial statements include the financial statements of MCD, MHP and MHLP. MHLP is included in the consolidation in accordance with United States generally accepted accounting principles (US GAAP) which requires consolidation of all such entities which MCD has both control and economic interest. All significant intercompany accounts and transactions have been eliminated in these consolidated financial statements.

**Basis of Accounting**

The Organization prepares financial statements on the accrual basis of accounting.

**Cash and Cash Equivalents**

The Organization considers cash on hand and demand deposits in banks as cash and highly liquid debt instruments with an original maturity of three months or less to be cash equivalents for the purpose of the statement of cash flows.

**Metro Community Development, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**June 30, 2017**  
**(With Summarized Comparative Information for June 30, 2016)**

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**Certificates of Deposit**

The certificates of deposit are recorded on the cost basis which approximates fair value.

**Investments**

Investments in marketable securities with readily determinable fair values are valued at their fair values in the statement of financial position. Investment securities are all valued using level one or two inputs which are based on unadjusted quoted market prices within the markets. Changes in unrealized gains and losses are included in the statement of activities as investment income (loss). The Organization primarily uses quoted market prices to establish fair value and transactions are recorded on the trade date.

**Accounts Receivable**

Accounts receivable consists primarily of amounts due from granting sources for the various programs operated by the Organization. Also included in receivables are tenant accounts receivable that are stated at net rent amounts. The Organization has not recorded a provision for doubtful accounts since it is the opinion of management that those receivables are collectible in full.

**Loans Receivable and Allowance for Loan Losses**

Loans receivable are stated at unpaid principal balances, less an allowance for loan losses. The allowance for loan losses represents management's estimate of probable losses inherent in the loan portfolios as of the balance sheet date. The estimate of the allowance is based on a variety of factors, including past loan loss experience, adverse situations that have occurred but are not yet known that may affect the borrower's ability to repay, the estimated value of the underlying collateral, lender requirements, and general economic condition. The ultimate recovery of all loans is susceptible to future market factors beyond the Organization's control.

The Organization considers a loan impaired when based on current information or factors, it is probable that the organization will not collect all principal and interest due according to the loan agreement. Management considered many factors in determining whether a loan is impaired, such as payment history, borrower financial condition, and value of collateral. The Organization reviews impairment on a loan-by-loan basis by either using the fair value of collateral or the present value of expected cash flows discounted at the loans effective interest rate or, as practical expedient, at the loan's observable market price or the fair value of collateral if the loan is dependent.

Interest income on loans receivable is accrued based on the loan balance and interest rate stated in the loan agreement, ranging from 4.0% to 7.0%. Once a loan receivable is determined to be uncollectable and written off, the Organization no longer recognizes interest income on the loan balance. Any payment received on loans previously written off are recorded as loan loss recoveries.

**Property and Equipment**

Property and equipment is recorded at cost and items which substantially increase the useful lives of existing assets are capitalized at cost. Depreciation on the building, furniture and fixtures is computed using the straight-line method over the useful lives of the assets ranging from 7 - 40 years. Improvements over \$ 5,000 are capitalized while expenditures for maintenance and repairs are charged to expenses when incurred.

**Land Development Sites**

The Organization maintains land to be used for future development which is stated at the lower of cost or market. Carrying costs related to the land are expensed as incurred.

**Metro Community Development, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**June 30, 2017**  
**(With Summarized Comparative Information for June 30, 2016)**

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**Advance on Grants**

Advances on grants represent amounts received from grantors which would have to be returned if not expended for the grant purposes within the contract period.

**Net Asset Classification**

The financial statements are presented in accordance with accounting principles generally accepted in the United States of America (US GAAP) to report information regarding the Organization's financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Net assets designated for the Community Development Financial Institutions (CDFI) program represent amounts set aside by the Board to make loans to eligible businesses and individuals. The amount is based on the estimated collectable value of loans made with funds from the Community Development Financial Institutions CDFI program. The expected collections from those loans will be used to make new loans.

**Grant Revenue Recognition**

The Organization enters into contracts with certain governmental and private agencies. Revenue under these contracts is recognized when earned. The activities of the Organization relating to certain contracts are subject to review or audit by the responsible governmental agency to determine compliance with award documents and may be subject to possible adjustment based on negotiations with the funding agencies. The Organization has not provided allowances in the financial statements for potential adjustments since such amounts, if any, are not expected to be significant.

**Contributions**

Contributions received are recorded as unrestricted or temporarily restricted depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily restricted net assets, depending on the nature of the restriction. When a restriction expires, that is, when a stipulated time restriction ends or purpose of restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**In-Kind Donations**

Contributions of services are recognized if the services received create or enhance a non-financial asset or the services require specialized skills that are provided by individuals possessing those skills. In-kind expenses recognized during the years ended June 30, 2017 and June 30, 2016 amounted to \$ 106,562 and \$ 18,414 for donated services and \$ 45,125 and \$ 85,840 for donated facilities, respectively. The Organization also receives various support throughout the year from volunteers that are not recognized in the financial statements since the recognition criteria were not met.

**Rental Income**

Rental income is recognized as rents become due. Rental payments received in advance are deferred until earned. All leases between the MHLF and the tenants of the property are operating leases.

**Metro Community Development, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**June 30, 2017**  
**(With Summarized Comparative Information for June 30, 2016)**

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**Income Tax Status**

Metro Community Development, Inc., and Metro Housing Partnership, nonprofit exempt organizations have both been granted tax-exempt status by the Internal revenue Service under Section 501(c)(3) of the Internal Revenue Code, and both file a Federal informational return. The income and losses of Metawaneenee Hills Limited Partnership are allocated to the partners and reported on their respective tax returns. The activities of Metawaneenee Hills Limited Partnership are within the tax exempt purpose of Metro Housing Partnership.

**Use of Estimates**

The preparation of financial statements in conformity with US 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 financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Functional Allocation of Expenses**

The statement of activities discloses expenses by natural classification. The classification of expenses by function is as follows for the year ended June 30:

|                                  | 2017                | 2016                |
|----------------------------------|---------------------|---------------------|
| Program services                 | \$ 3,625,607        | \$ 3,656,727        |
| Management and general           | 60,709              | 98,695              |
| Fundraising - grant applications | 59,835              | 11,000              |
|                                  | <u>\$ 3,746,151</u> | <u>\$ 3,766,422</u> |

Indirect costs have been allocated between program and support services based on estimates as determined by management. Fundraising costs primarily consist of expenses relating to grant application activity. Although the methods of allocation used are considered reasonable, other methods could be used that would produce different results.

**Concentration of Credit Risk**

The Organization is required to disclose concentration of credit risk regardless of the degree of such risk. Financial instruments which potentially subject the Organization to concentration of credit risk consist principally of cash, cash equivalents and certificates of deposits. The Organization places its cash and cash equivalents with high quality financial institutions. At June 30, 2017, deposits with financial institutions amounted to \$ 4,065,512, of this amount, \$ 2,908,505 was uncollateralized and uninsured by FDIC depository insurance. The Organization's loan receivable portfolio is concentrated primarily within Genesee County.

**Comparative Financial Information**

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the fiscal year ended June 30, 2016, from which the summarized information was derived.

**Reclassifications**

Certain reclassification were made to amounts in the 2016 financial statements to confirm to the classifications used in 2017. These classifications related to changes to the presentation of accounts receivable and loans receivable on the consolidated statement of financial position.

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**Subsequent Events**

Events that occur after the financial statement date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. Management has evaluated subsequent events through November 1, 2017 and concluded that no subsequent events have occurred that would require disclosure in the notes to the financial statements.

**Note 2 – Funded Reserves**

Funded reserves primarily consist of cash required by lenders and regulators to be set aside as a loan loss reserve to cover future loan losses related to the loan portfolio. Additionally, MHLP is required to set aside amounts in a replacement reserve account to be available for the replacement of property and project expenditures. Funded reserves are as follows at June 30:

| Purpose               | Source                        | 2017              | 2016              |
|-----------------------|-------------------------------|-------------------|-------------------|
| Loan Loss Reserve     | Small Business Administration | \$ 127,158        | \$ 70,803         |
| Loan Loss Reserve     | Department of Treasury - CDFI | 226,121           | 226,031           |
| Loan Loss Reserve     | Huntington Bank               | 40,026            | -                 |
| Loan Loss Reserve     | Genesee County                | 6,048             | -                 |
| Replacement Reserve   | Metawaneenee Hills            | 31,610            | -                 |
| Total funded reserves |                               | <u>\$ 430,963</u> | <u>\$ 296,834</u> |

**Note 3 – Deposit**

The Organization has \$ 500,000 on deposit with the Federal Home Loan Bank of Indianapolis. These funds are used as collateral for the Homeownership Initiative Program. At June 30, 2017, the collateral has yet to be drawn upon.

**Note 4 – Investments**

Investments are recorded at fair value. A summary of cost, fair value, and unrealized gain or loss on investment at June 30, 2017 is as follows:

| June 30, 2017                       | Cost                | Fair Value          | Unrealized Gain (Loss) |
|-------------------------------------|---------------------|---------------------|------------------------|
| Debt securities                     |                     |                     |                        |
| US government obligations           | \$ 343,339          | \$ 339,582          | \$ (3,757)             |
| Inflation index bonds               | 20,931              | 21,530              | 599                    |
| Mortgage back securities            | 275,314             | 271,008             | (4,306)                |
| Corporate bonds                     | 296,923             | 293,729             | (3,194)                |
| Foreign bonds and notes             | 23,251              | 23,465              | 214                    |
| Private placements                  | 10,060              | 10,371              | 311                    |
| Equity securities                   |                     |                     |                        |
| International securities            | 260,326             | 272,765             | 12,439                 |
| Small and mid cap equity securities | 46,139              | 44,879              | (1,260)                |
| Large cap equity securities         | 460,279             | 474,352             | 14,073                 |
| Money market and other              | 61,856              | 61,856              | -                      |
|                                     | <u>\$ 1,798,418</u> | <u>\$ 1,813,537</u> | <u>\$ 15,119</u>       |

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A summary of cost, fair value, and unrealized gain or loss on investment at June 30, 2016 is as follows:

| June 30, 2016                       | Cost                | Fair Value          | Unrealized<br>Gain (Loss) |
|-------------------------------------|---------------------|---------------------|---------------------------|
| Debt securities                     |                     |                     |                           |
| US government obligations           | \$ 403,163          | \$ 407,687          | \$ 4,524                  |
| US federal agencies                 | 23,176              | 23,094              | (82)                      |
| Inflation index bonds               | 20,931              | 21,931              | 1,000                     |
| Mortgage back securities            | 214,646             | 215,410             | 764                       |
| Collateralized mortgage obligations | 16,100              | 15,193              | (907)                     |
| Corporate bonds                     | 285,219             | 286,546             | 1,327                     |
| Foreign bonds and notes             | 12,255              | 12,648              | 393                       |
| Private placements                  | 10,060              | 10,767              | 707                       |
| Equity securities                   |                     |                     |                           |
| International securities            | 98,005              | 93,899              | (4,106)                   |
| Small and mid cap equity securities | 43,811              | 38,465              | (5,346)                   |
| Large cap equity securities         | 394,947             | 356,070             | (38,877)                  |
| Money market and other              | 138,919             | 138,919             | -                         |
|                                     | <u>\$ 1,661,232</u> | <u>\$ 1,620,629</u> | <u>\$ (40,603)</u>        |

The following schedule reconciles investment income as reported in the statement of activities with investment earnings.

|                                       | 2017             | 2016             |
|---------------------------------------|------------------|------------------|
| Interest and dividend income          | \$ 77,034        | \$ 80,966        |
| Realized loss on investments          | (14,254)         | (12,619)         |
| Unrealized gain (loss) on investments | 55,722           | (15,838)         |
| Total investment income               | 118,502          | 52,509           |
| Investment fees and expenses          | (25,224)         | (21,383)         |
| Net investment income                 | <u>\$ 93,278</u> | <u>\$ 31,126</u> |

The scheduled maturities of debt security investments at June 30, 2017 are as follows:

|                                       | Cost              | Fair value        |
|---------------------------------------|-------------------|-------------------|
| Due in one year or less               | \$ 95,277         | \$ 94,204         |
| Due after one year through five years | 369,379           | 366,520           |
| Due after five years or more          | 505,162           | 498,961           |
| Total                                 | <u>\$ 969,818</u> | <u>\$ 959,685</u> |



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**Note 5 – Fair Value Measurements**

US GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

In general, fair value determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little if any, market activity for the related asset or liability.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in the entirety are categorized based on the lowest level input that is significant to the valuation. The Organization's assessment of the significance of particular inputs to these fair value measurements requires judgement and considers factors specific to each asset or liability.

Disclosures concerning assets and liabilities measured at fair value on a recurring basis are as follows as of June 30, 2017:

|                                     | Balance at<br>June 30, 2017 | Quoted prices in active<br>markets for identical<br>assets (Level 1) | Significant other<br>observable inputs<br>(Level 2) |
|-------------------------------------|-----------------------------|--|---|
| Debt securities                     |                             |  |   |
| US government obligations           | 339,582                     | 339,582  | -   |
| Inflation index bonds               | 21,530                      | 21,530   | -   |
| Mortgage back securities            | 271,008                     | -  | 271,008   |
| Corporate bonds                     | 293,729                     | -  | 293,729   |
| Foreign bonds and notes             | 23,465                      | -  | 23,465  |
| Private placements                  | 10,371                      | -  | 10,371  |
| Equity securities                   |                             |  |   |
| International securities            | 272,765                     | 272,765  | -   |
| Small and mid cap equity securities | 44,879                      | 44,879   | -   |
| Large cap equity securities         | 474,352                     | 474,352  | -   |
| Money market and other              | 61,856                      | 61,856   | -   |
|                                     | <u>\$ 1,813,537</u>         | <u>\$ 1,214,964</u>  | <u>\$ 598,573</u>                                   |

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Disclosures concerning assets and liabilities measured at fair value on a recurring basis are as follows as of June 30, 2016:

|                                     | Balance at<br>June 30, 2016 | Quoted prices in active<br>markets for identical<br>assets (Level 1) | Significant other<br>observable inputs<br>(Level 2) |
|-------------------------------------|-----------------------------|--|---|
| <b>Debt securities</b>              |                             |  |   |
| US government obligations           | 407,687                     | 407,687  | -   |
| US federal agencies                 | 23,094                      | 23,094   | -   |
| Inflation index bonds               | 21,931                      | 21,931   |   |
| Mortgage back securities            | 215,410                     | -  | 215,410   |
| Collateralized mortgage obligations | 15,193                      | -  | 15,193  |
| Corporate bonds                     | 286,546                     | -  | 286,546   |
| Foreign bonds and notes             | 12,648                      | -  | 12,648  |
| Private placements                  | 10,767                      | -  | 10,767  |
| <b>Equity securities</b>            |                             |  |   |
| International securities            | 93,899                      | 93,899   | -   |
| Small and mid cap equity securities | 38,465                      | 38,465   | -   |
| Large cap equity securities         | 356,070                     | 356,070  | -   |
| Money market and other              | 138,919                     | 138,919  | -   |
|                                     | <u>\$ 1,620,629</u>         | <u>\$ 1,080,065</u>  | <u>\$ 540,564</u>                                   |

Disclosures concerning assets and liabilities measured at fair value on a nonrecurring basis due to the acquisition of MHLP on December 16, 2016 are as follows:

|                                  | Balance at<br>December 16,<br>2016 (Acquisition<br>date) | Quoted prices in<br>active markets<br>for identical<br>assets (Level 1) | Significant<br>other<br>observable<br>inputs (Level 2) | Significant<br>Unobservable<br>Inputs (Level 3) |
|----------------------------------|--|---|--|---|
| <b>Assets</b>                    |  |   |  |   |
| Cash and cash equivalents        | \$ 114,480   | \$ 114,480  | \$ -   | \$ -  |
| Accounts receivable and prepaids | 8,527  | -   | 8,527  | -   |
| Funded reserves and escrows      | 28,010   | 28,010  | -  | -   |
| Property and equipment           | 500,000  | -   | -  | 500,000   |
|                                  | <u>\$ 651,017</u>  | <u>\$ 142,490</u>   | <u>\$ 8,527</u>  | <u>\$ 500,000</u>                               |
| <b>Liabilities</b>               |  |   |  |   |
| Accounts payable and other       | \$ 2,979   | \$ -  | \$ 2,979   | \$ -  |

**Metro Community Development, Inc. and Subsidiaries**  
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Assets and liabilities categorized as level 2 consist of accounts receivable, prepaid assets and accounts payable. These assets and liabilities are not traded in an active market and the valuation techniques used by the Organization maximize the use of observable market data where it is readily available and rely as little as possible on entity-specific estimates.

Property and equipment categorized as level 3 assets consist land, land improvements, buildings and furniture and fixtures of a 24 unit affordable housing project. Since no public market exists for the property and equipment, the Organization determined the fair value using both a market approach and income approach by taking into consideration factors such as discounted future cash flows, assessed values of the units and comparable market data. The values determined for property and equipment are based on available information at the time the good faith valuations were made and may not necessarily represent the amounts that might ultimately be realized, which could be higher or lower than the reported values. The valuation of property and equipment can be subject to rapid change due to business and market conditions and the valuation is therefore inherently uncertain. Because of this inherent uncertainty, the estimated fair values of the property and equipment may differ significantly from the values that would have been used had a ready market for the investments existed.

**Note 6 – In-Kind Contributions Receivable**

In-kind contributions receivable are provided by the organizations partners in the YouthBuild program and primarily consist of unconditional promises for use of facility. Management expects uncollectable in-kind contributions to be insignificant. At June 30, 2017, in-kind contributions receivable were:

|  |                         |
|--|-------------------------|
| Facilities receivable in less than one year  | \$ 43,992               |
| Facilities receivable in in one to two years | <u>7,332</u>            |
| Total in-kind contributions receivable       | <u><u>\$ 51,324</u></u> |

**Note 7 – Loans Receivable**

The Organization has developed a loan and investment program to support the growth of businesses in the Organization's operating area as a means to assist in sustaining and creating new jobs in the community. Customers are most often local businesses who want to expand their markets and increase their profitability. The Organization's loan portfolio is comprised of loans that are secured by real estate, commercial property and equipment. The collateral is concentrated primarily within Genesee County. Loans receivable at June 30, 2017 and 2016 consist of the following:

|   | <u>2017</u>                | <u>2016</u>                |
|---|----------------------------|----------------------------|
| Micro Loans and Enterprise Loans - CDFI | \$ 1,393,254               | \$ 1,926,396               |
| Micro Loans - SBA                       | 417,305                    | 262,451                    |
| Affordable Mortgage Loans               | 878,831                    | 929,141                    |
| Small Business Loans                    | 349,366                    | -                          |
| Senior Tax and Home Retention Loans     | 2,575                      | 16,862                     |
| Less: allowance for loan losses         | <u>(309,903)</u>           | <u>(263,405)</u>           |
| Total loans receivable, net             | <u><u>\$ 2,731,428</u></u> | <u><u>\$ 2,871,445</u></u> |

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Details of the various loan programs are as follows:

- **Micro loan fund:** to provide loans in the range of \$ 5,000 - \$ 50,000 towards purchase or improvement of property, leasehold improvements, equipment, vehicles, hardware and software and other effective financial needs that contribute to the sustainability and growth of an existing business. Interest rates range between 4% - 6.5% based on type of funds available. Loan terms are for five years. The micro loan fund has been established with the assistance of C.S. Mott Foundation, the U.S. Department of Treasury's Community Development Financial Institutions (CDFI) Program and the U.S. Small Business Administration.
- **Enterprise loan fund:** to provides loan in the range of \$ 50,001 to \$ 200,000 towards business growth that can be used as leverage for financing with lenders. The loan fund can be secondary loan. Interest rates range between 5% - 7% based on type of funds available. Loan terms vary from 5 to 10 years depending on the type of loan funds. Enterprise loans are funded through the CDFI program.
- **Affordable mortgage loans:** the Organization participates in an affordable mortgage program to maintain community stability and stimulate neighborhood revitalization. The Affordable Mortgage Program is established to provide mortgages to residents in City of Flint and Genesee County that cannot obtain financing through conventional sources or other financing from financial institutions. The program creates opportunity for first time homebuyers and former homeowners. Loan amounts generally range from \$ 15,000 to \$ 75,000 and loan terms vary from 5 to 30 years. Interest rates range between 4% - 6%. Funding for the affordable mortgage loan fund is established in partnership with Genesee County Metropolitan Planning Commission and the City of Flint. As a corresponding liability for these loans has been established as a revolving loan payable, an allowance for doubtful accounts is not calculated on the affordable mortgage loans as the Organization does not absorb the risk of loss.
- **Small Business Loan Fund:** to provide loans to micro and small business in the range of \$ 5,000 to \$ 250,000 towards business growth in the Flint and Saginaw areas. Interest rates range from 6.5% - 7% based on type of funds available. Loan terms vary from 5 to 15 years depending on the type of loan funds. Small business loan fund loans are made with proceeds drawn from the Huntington Bank note.
- **Senior tax loan and home retention loans:** the Organization established senior tax loan and home retention loan programs. The senior tax loan program provides loans to seniors to assist in paying delinquent property taxes to prevent foreclosure. The senior home retention program is available to seniors who have been approved for a Home Equity Conversion Mortgage (commonly known as a Reverse Mortgage). The benefits of these loans include reduced mortgage payments because of lower interest rates and allowing the seniors to live in their homes for an extended period of time. Loan amounts range from \$ 1,000 to \$ 7,500 and are generally for a period of 5 years. Interest rates are 4%. Funding for the senior tax loans and home retention loans has been established with assistance from the C.S. Mott Foundation.

At June 30, 2017, the Organization has one loan participating and servicing agreements with the Michigan Strategic Fund (MSF) a component unit of the State of Michigan, whereby MSF obtained a 49.9% equity share of the loan made by the Organization. Under the terms of the agreements, the Organization and MSF share in the collections of the loans, in proportion with their respective percentage interests. In the event of default by the borrower, the Organization will pursue collection, and the proceeds from which will be allocated between the Organization and the MSF in accordance with their respective equity shares. The total amount owed to MSF under the participation agreement amounts to \$ 38,216 as of June 30, 2017. As the participation agreement constitutes a sale of a portion of the loans by the Organization to MSF, loan receivables are stated net of the MSF participation amount.

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The following presents the aging of loan balances by portfolio segment at June 30, 2017:

|   | 91+ Days<br>Past Due | 31 - 90 Days<br>Past Due | Current             | Total               |
|---|----------------------|--------------------------|---------------------|---------------------|
| Micro Loans and Enterprise Loans - CDFI | \$ 385,844           | \$ 133,914               | \$ 873,496          | \$ 1,393,254        |
| Micro Loans - SBA                       | -                    | 12,042                   | 405,263             | 417,305             |
| Affordable Mortgage Loans               | 123,420              | 71,105                   | 684,306             | 878,831             |
| Small Business Loans                    | -                    | -                        | 349,366             | 349,366             |
| Senior Tax and Home Retention Loans     | -                    | 210                      | 2,365               | 2,575               |
|   | <u>\$ 509,264</u>    | <u>\$ 217,271</u>        | <u>\$ 2,314,796</u> | <u>3,041,331</u>    |
| Allowance for Loan Loss                 |                      |                          |                     | <u>(309,903)</u>    |
| Totals                                  |                      |                          |                     | <u>\$ 2,731,428</u> |

The Organization accepts credit risks beyond the tolerance of regulated lenders and identifies the risk of each loan and mitigation of those risks on a case-by-case basis. Loans are evaluated by the Organization using a risk rating scale of low (highest credit quality, borrower is stable and reliable) to doubtful (weak borrower, facing significant challenges).

The following presents the credit quality of the loans receivable as of June 30, 2017:

|   | Risk<br>Rating Low | Risk<br>Rating<br>Medium | Risk Rating<br>Satisfactory | Risk<br>Rating<br>Watch | Risk Rating<br>Doubtful | Total               |
|---|--------------------|--------------------------|-----------------------------|-------------------------|-------------------------|---------------------|
| Micro Loans and Enterprise Loans - CDFI | \$ 873,496         | \$ -                     | \$ 133,914                  | \$ 98,825               | \$ 287,019              | \$ 1,393,254        |
| Micro Loans - SBA                       | 401,248            | 11,834                   | 4,223                       | -                       | -                       | 417,305             |
| Affordable Mortgage Loans               | 523,525            | -                        | 207,154                     | 126,140                 | 22,012                  | 878,831             |
| Small Business Loans                    | 349,366            | -                        | -                           | -                       | -                       | 349,366             |
| Senior Tax and Home Retention Loans     | 2,365              | 210                      | -                           | -                       | -                       | 2,575               |
|   | <u>2,150,000</u>   | <u>12,044</u>            | <u>345,291</u>              | <u>224,965</u>          | <u>309,031</u>          | <u>3,041,331</u>    |
| Allowance for Loan Loss                 |                    |                          |                             |                         |                         | <u>(309,903)</u>    |
| Totals                                  |                    |                          |                             |                         |                         | <u>\$ 2,731,428</u> |

During the year, two loans were impaired and classified as non-performing due to missed and/or low payments. The Organization has obtained collateral for these loans and has established a loan loss reserve with a doubtful risk rating. As of June 30, 2017, the investment in these loans, before consideration of an allowance amounted to \$ 212,984 and the related allowance for specifically impaired loans was \$ 106,500.

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Original maturities of loans receivable over the next five years ended June 30 are expected to be as follows:

|            |           |                  |
|------------|-----------|------------------|
| 2018       | \$        | 417,597          |
| 2019       |           | 420,831          |
| 2020       |           | 421,943          |
| 2021       |           | 329,116          |
| 2022       |           | 325,715          |
| Thereafter |           | 1,126,129        |
|            | <u>\$</u> | <u>3,041,331</u> |

**Note 8 – Allowance for Loan Losses**

The Organization's allowance for loan losses for loans receivable and deferred loans receivable are as follows at June 30:

|                                     | <u>2017</u>       | <u>2016</u>    |
|-------------------------------------|-------------------|----------------|
| Balance, beginning                  | \$ 263,405        | \$ 103,070     |
| Provision for loan losses           | 93,898            | 179,635        |
| Charge-offs of deferred loan losses | (47,400)          | (19,300)       |
| Balance, ending                     | <u>\$ 309,903</u> | <u>263,405</u> |

An allowance for loan losses has not been established for the affordable mortgage loans since the Organization does not absorb the risk of loss on the loans and a corresponding liability for these loans has been established as a revolving loan payable.

**Note 9 – Property and Equipment**

The cost of property and equipment is summarized as follows at June 30:

|                               | Metro<br>Community<br>Development,<br>Inc. | Metawaneenee<br>Hills Limited<br>Partnership | <u>2017</u>       | <u>2016</u>      |
|-------------------------------|--|--|-------------------|------------------|
| Land                          | \$ -                                       | \$ 11,089                                    | \$ 11,089         | \$ -             |
| Land improvements             | -  | 28,327                                       | 28,327            | -                |
| Buildings                     | -  | 451,601                                      | 451,601           | -                |
| Furniture and fixtures        | 7,299                                      | 8,983  | 16,282            | 7,299            |
| Computer equipment            | 20,000                                     | -  | 20,000            | 20,000           |
|                               | <u>27,299</u>                              | <u>500,000</u>                               | <u>527,299</u>    | <u>27,299</u>    |
| Total property and equipment  | 27,299                                     | 500,000                                      | 527,299           | 27,299           |
| Less accumulated depreciation | <u>(11,632)</u>                            | <u>(6,995)</u>                               | <u>(18,627)</u>   | <u>(7,632)</u>   |
| Net property and equipment    | <u>\$ 15,667</u>                           | <u>\$ 493,005</u>                            | <u>\$ 508,672</u> | <u>\$ 19,667</u> |

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**Note 10 – Revolving Loans**

Revolving loans represent amounts to be repaid to grantors for the outstanding balance on loans made with funds for the affordable mortgage loan program. In accordance with an agreement entered into between the Organization and Genesee County in May 2016 and effective through May 24, 2020, the principal and interest collected on the affordable mortgage loans will be held onto by Metro Community Development, Inc., and once the amount collected exceeds \$ 200,000, the Organization will withdraw \$ 100,000 and establish a loan-loss reserve account. At the time the loan-loss reserve account is established, the County and Organization will meet to determine the use of the funds. If either party terminates the agreement, the funds will be returned to the County.

During the year, the Organization entered into a revolving loan agreement with the City of Flint. The principal and interest collected on the affordable mortgage loans will be held onto by Metro Community Development, Inc., and used to establish a Housing Loan Fund program whereby the funds collected will be reinvested and used for new homebuyer initiatives managed by the Organization.

The balance of the revolving loans amounted to \$ 897,823 and \$ 915,013 at June 30, 2017 and 2016, respectively. The entire balance has been reported as noncurrent as it is not the intention of either Organization to terminate the agreements in the near term. The Organization does not pay interest on the outstanding revolving loan balances.

**Note 11 – Notes Payable**

The Organization has various notes payable where the proceeds have been used to make loans under the Organization's various lending programs as follows for the years ended June 30:

|  | <u>2017</u> | <u>2016</u> |
|--|-------------|-------------|
| SBA loan (loan no. 6130755010), dated July 12, 2013 in the amount of \$ 250,000 is payable over ten years at a stated interest rate of .875%. Interest for the first twelve months accrued at 0% and can remain at that amount based on annual portfolio reviews performed by the SBA. No payments of principal or interest are required for the first twelve months from the date of the note. After that period, amounts borrowed under the SBA note are to be amortized over a ten year period. Current monthly payments on the note, including interest at 0% amount to \$ 2,441 per month.              | \$ 177,014  | \$ 203,923  |
| SBA loan (loan no. 7397295007), dated July 18, 2015 in the amount of \$ 200,000 is payable over ten years at a stated interest rate of 1.50%. However, interest for the first twelve months accrued at 0% and can remain at that amount based on annual portfolio reviews performed by the SBA. No payments of principal or interest are required for the first twelve months from the date of the note. After that period, amounts borrowed under the SBA note are to be amortized over a ten year period. Currently monthly payments on the note, including interest at .25% amount to \$ 2,029 per month. | 184,821     | 115,000     |

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SBA loan (loan no. 8723675004), dated November 28, 2016 in the amount of \$ 300,000 is payable over ten years at a stated interest rate of 1.125%. However, interest for the first twelve months accrued at 0% and can remain at that amount based on annual portfolio reviews performed by the SBA. No payments of principal or interest are required for the first twelve months from the date of the note. After that period, amounts borrowed under the SBA note are to be amortized over a ten year period. As of June 30, 2017, the Organization has utilized \$ 182,000 of the available note, and no interest has accrued to-date on the note.

182,000                      -

Note payable to Huntington Bank, dated November 4, 2016 in an amount not to exceed \$ 2,000,000. Interest accrues on the unpaid balance of the principal at 2% and is payable quarterly. Commencing November 1, 2021 and on the first day of each calendar month thereafter, through the maturity date on November 4, 2026, equal payments of principal and interest will be made on the outstanding balance of the note. As of June 30, 2017, \$402,000 had been drawn on the note.

402,000                      -

Metawaneennee Hills Limited Partnership has an unsecured note payable to its limited partner, National Equity Fund, in the amount of \$ 20,000, bearing interest of 1.62% per annum. Payments of interest and principal are to be made from surplus cash of the partnership.

20,000                      -

Total                      965,835                      318,923

Less current portion                      (84,795)                      (40,000)

Long-term portion                      \$ 881,040                      \$ 278,923

With the exception of the MHLP note which is unsecured, the notes are secured by a security interest in all loans made with funding from the respective notes as well as an interest in the loan loss reserve account maintained by the Organization.

Principal repayments of the notes payable over the next five years ended June 30 are expected as follows:

|            |           |                |
|------------|-----------|----------------|
| 2018       | \$        | 84,795         |
| 2019       |           | 85,070         |
| 2020       |           | 85,489         |
| 2021       |           | 85,913         |
| 2022       |           | 86,341         |
| Thereafter |           | <u>538,227</u> |
|            | <u>\$</u> | <u>965,835</u> |



**Metro Community Development, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**June 30, 2017**  
**(With Summarized Comparative Information for June 30, 2016)**

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In addition to the above notes, the Organization entered into a promissory note agreement with Bank of America in an amount not to exceed \$ 500,000. The proceeds of the line will be used to fund loans the Organization makes to microenterprise and small business borrowers. The note bears interest at 3.00% per annum and is payable at the end of each calendar quarter. The note has an 8 year term, maturing in 2025, with a 24 month draw period, and principal payments beginning in year 5. As of June 30, 2017, the Organization had not initiated any draws on the note and the balance was \$ 0.

**Note 12 – Non-Controlling Interest in Limited Partnership**

This amount represents the aggregate balance of Limited Partner equity interest in Metawaneenee Hills Limited Partnership that are included in the consolidated financial statements.

**Note 13 – Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purpose at June 30:

|   | 2017              | 2016              |
|---|-------------------|-------------------|
| Deferred loans  | \$ -              | \$ 47,400         |
| United Way grant                                      | 42,399            | 62,399            |
| Senior Home Retention Fund                            | 103,715           | 103,715           |
| Flint water assistance - Elizabeth A. Lynn Foundation | -                 | 34,416            |
| Bishop Trust - operations                             | -                 | 10,000            |
| YouthBuild assistance - Ruth Mott Foundation          | -                 | 52,708            |
| Sybyl Award   | -                 | 10,000            |
| Ruth Mott Foundation - BNCP                           | 60,000            | -                 |
| Neighborworks America                                 | 50,000            | -                 |
| Building Neighborhood Capacity                        | -                 | 29,789            |
| YouthBuild in-kind contributions                      | 51,324            | -                 |
|   | <u>\$ 307,438</u> | <u>\$ 350,427</u> |

During the current year, net assets were released from restrictions as either the purpose or timing restriction was met as follows:

|   |                   |
|---|-------------------|
| Deferred Loans  | \$ 47,400         |
| Bishop Trust - operations                             | 10,000            |
| Sybyl Award   | 10,000            |
| Flint water assistance - Elizabeth A. Lynn Foundation | 34,416            |
| United Way - IDA operations                           | 20,000            |
| Building Neighborhood Capacity                        | 29,789            |
| YouthBuild assistance - Ruth Mott Foundation          | 52,708            |
|   | <u>\$ 204,313</u> |

**Metro Community Development, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**June 30, 2017**  
**(With Summarized Comparative Information for June 30, 2016)**

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**Note 14 – Permanently Restricted Net Assets**

NeighborWorks America provided a \$ 35,000 capital grant during the year for making affordable loans and capital projects. This amount is permanently restricted although proceeds on capital projects, or interest earned, over and above the corpus may be transferred to unrestricted net assets for furthering the Organization's mission. However, should the Organization become defunct, all remaining grant funds, interest earnings, capital project proceeds, and the loan and capital projects portfolios representing the use of these funds will revert to NeighborWorks America.

**Note 15 – Grant Revenue**

Grant revenue recognized consist of the following for the year ended June 30, 2017 and 2016:

|   | <u>2017</u>         | <u>2016</u>         |
|---|---------------------|---------------------|
| Other grants:   |                     |                     |
| Neighborhood Impact Program                             | <u>\$ 80,211</u>    | <u>\$ 85,476</u>    |
| State grants:   |                     |                     |
| Michigan Economic Development Corporation               | \$ 100,000          | \$ -                |
| MSHDA - Chronic Homeless Initiative                     | <u>68,650</u>       | <u>109,490</u>      |
|   | <u>\$ 168,650</u>   | <u>\$ 109,490</u>   |
| Federal grants:   |                     |                     |
| Department of Housing and Urban Development (HUD) -     |                     |                     |
| Continuum of Care (CoC) grant                           | \$ 1,953,977        | \$ 1,953,793        |
| HUD - Housing counseling subgrant                       | 56,280              | 33,705              |
| HUD - Emergency Solutions Grant                         | 23,597              | 186,397             |
| HUD - Section 4 Grant                                   | 72,500              | 82,616              |
| Department of Labor - Youth Build                       | 155,677             | 410,853             |
| Department of Treasury - CDFI                           | 87,575              | 717,155             |
| Department of Justice - Building Neighborhood Capacity  | 161,214             | 148,438             |
| US Small Business Administration - Technical Assistance | <u>87,729</u>       | <u>14,640</u>       |
|   | <u>\$ 2,598,549</u> | <u>\$ 3,547,597</u> |

**Metro Community Development, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**June 30, 2017**  
**(With Summarized Comparative Information for June 30, 2016)**

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**Note 16 – Local Support**

Local support revenue consist of the following for the year ended June 30, 2016 and 2015:

|   | 2017              | 2016              |
|---|-------------------|-------------------|
| Capital Fund Services                                 | \$ 49,560         | \$ -              |
| Charles Stewart Mott Foundation                       | 135,000           | 135,000           |
| Flint water assistance - Elizabeth A. Lynn Foundation | -                 | 34,416            |
| Huntington National Bank                              | 15,000            | -                 |
| Kettering University                                  | 55,000            | 50,000            |
| Michigan Certified Development                        | 40,000            | -                 |
| Ruth Mott Foundation                                  | 60,000            | 135,901           |
| United Way of Genesee                                 | 20,000            | 25,505            |
| Other local contributions                             | 93,416            | 64,700            |
|   | <u>\$ 467,976</u> | <u>\$ 445,522</u> |

**Note 17 – Retirement Plan**

The Organization offers a retirement plan to its salaried employees in the form of a tax deferred annuity under Code Section 403(b). Employees elect annually to deposit a portion of their salaries into the plan, and the Organization matches up to 3% of the base salary. Retirement plan expense was \$ 7,597 and \$ 12,351 for the fiscal years ended June 30, 2017 and 2016.

**Note 18 – Lease Commitments**

The Organization leases three office suites under two operating leases expiring at various dates through September 30, 2019. Additionally the Organization leases a copier under an operating lease expiring October 31, 2017.

Future minimum payments under the lease agreements are as follows for the years ended June 30:

|      | Office Suite<br>No.'s 804 and 810 | Office Suite<br>No. 839 | Copier | Total     |
|------|-----------------------------------|-------------------------|--------|-----------|
| 2017 | \$ 28,668                         | \$ 9,468                | \$ 528 | \$ 38,664 |
| 2018 | 7,167                             | 9,468                   | -      | 16,635    |
| 2019 | -                                 | 2,367                   | -      | 2,367     |

**Note 19 – Commitments and Contingencies**

Grants require the fulfillment of certain conditions as set forth in the governing instrument. Failure to fulfill the conditions could result in the return of the funds to the grantors. The Board deems the contingency to be remote, since by accepting the grants and their terms; it has accommodated the objectives of the Organization to the provisions of the grant.

MHP as the general partner of MHLP has guaranteed the obligations of the partnership and may be required to repay creditors of MHLP under normal partnership requirements. The general partner is also required to loan the partnership the funds to pay any operating deficits beginning with the period of achieving break-even operations and ending on December 31, 2022.

**Metro Community Development, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**June 30, 2017**  
**(With Summarized Comparative Information for June 30, 2016)**

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**Note 20 – Current Vulnerability Due to Funding Source Concentrations**

The Organization received 51% and 50% of its support from the U.S. Department of Housing and Urban Development (HUD) for the years ended June 30, 2017 and 2016 , respectively. It is reasonably possible that in the near term the HUD grant programs could cease, which would cause a severe impact on the Organization's ability to continue its operations. The Organization does not expect that support from HUD will be lost in the near term.

The Organization operates in the real estate rental market a heavily regulated environment. The operations in this market are subject to the administrative directives, rules and regulations of federal regulatory agencies, including, but not limited to, the Internal Revenue Code. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by the Internal Revenue Service. 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.

## **Supplementary Information**

**Metro Community Development, Inc. and Subsidiaries**  
**Consolidating Statement of Financial Position**  
**June 30, 2017**

|  | Metro Community<br>Development | Metro Housing<br>Partnership | Metawaneenee<br>Hills Limited<br>Partnership | Eliminating<br>Entries | Total               |
|--|--------------------------------|------------------------------|--|------------------------|---------------------|
| <b>Assets</b>  |                                |                              |  |                        |                     |
| Current assets   |                                |                              |  |                        |                     |
| Cash and cash equivalents                                  | \$ 2,649,099                   | \$ -                         | \$ 117,241                                   | \$ -                   | \$ 2,766,340        |
| Certificates of deposit                                    | 492,818                        | -                            | -  | -                      | 492,818             |
| Deposit - Federal Home Loan Bank                           | 500,000                        | -                            | -  | -                      | 500,000             |
| Investments  | 1,813,537                      | -                            | -  | -                      | 1,813,537           |
| Prepaid expense  | 16,000                         | -                            | 5,905  | -                      | 21,905              |
| Accounts receivable  | 421,981                        | -                            | 1,642  | -                      | 423,623             |
| Intercompany receivables                                   | 54,219                         | -                            | -  | (54,219)               | -                   |
| Prepaid development costs                                  | -                              | 39,600                       | -  | -                      | 39,600              |
| In-kind contributions receivable, current portion          | 43,992                         | -                            | -  | -                      | 43,992              |
| Loans receivable, current portion                          | 417,597                        | -                            | -  | -                      | 417,597             |
| Total current assets                                       | 6,409,243                      | 39,600                       | 124,788                                      | (54,219)               | 6,519,412           |
| Noncurrent assets  |                                |                              |  |                        |                     |
| Funded reserves  | 399,353                        | -                            | 31,610                                       | -                      | 430,963             |
| In-kind contributions receivable                           | 7,332                          | -                            | -  | -                      | 7,332               |
| Loans receivable, net of current portion<br>and allowance  | 2,313,831                      | -                            | -  | -                      | 2,313,831           |
| Property and equipment, net of<br>accumulated depreciation | 15,667                         | -                            | 493,005                                      | -                      | 508,672             |
| Land development sites                                     | 18,327                         | -                            | -  | -                      | 18,327              |
| Investment in limited partnership                          | -                              | 14,619                       | -  | (14,619)               | -                   |
| Total noncurrent assets                                    | 2,754,510                      | 14,619                       | 524,615                                      | (14,619)               | 3,279,125           |
| <b>Total assets</b>  | <b>\$ 9,163,753</b>            | <b>\$ 54,219</b>             | <b>\$ 649,403</b>                            | <b>\$ (68,838)</b>     | <b>\$ 9,798,537</b> |

**Metro Community Development, Inc. and Subsidiaries**  
**Consolidating Statement of Financial Position**  
**June 30, 2017**

|   | Metro Community<br>Development | Metro Housing<br>Partnership | Metawaneenee<br>Hills Limited<br>Partnership | Eliminating<br>Entries | Total               |
|---|--------------------------------|------------------------------|--|------------------------|---------------------|
| <b>Liabilities and net assets</b>               |                                |                              |  |                        |                     |
| Current liabilities                             |                                |                              |  |                        |                     |
| Accounts payable                                | \$ 234,633                     | \$ -                         | \$ 16,332                                    | \$ -                   | \$ 250,965          |
| Intercompany payables                           | -                              | 54,219                       | -  | (54,219)               | -                   |
| Accrued liabilities                             | 43,644                         | -                            | -  | -                      | 43,644              |
| Advance on grants                               | 178,425                        | -                            | -  | -                      | 178,425             |
| Notes payable, current portion                  | 84,795                         | -                            | -  | -                      | 84,795              |
| Total current liabilities                       | 541,497                        | 54,219                       | 16,332                                       | (54,219)               | 557,829             |
| Noncurrent liabilities                          |                                |                              |  |                        |                     |
| Revolving loans                                 | 897,823                        | -                            | -  | -                      | 897,823             |
| Notes payable, net of current portion           | 861,040                        | -                            | 20,000                                       | -                      | 881,040             |
| Total liabilities                               | 2,300,360                      | 54,219                       | 36,332                                       | (54,219)               | 2,336,692           |
| Net assets                                      |                                |                              |  |                        |                     |
| Unrestricted:                                   |                                |                              |  |                        |                     |
| Undesignated                                    | 3,813,999                      | -                            | -  | -                      | 3,813,999           |
| Designated: loan programs                       | 2,706,956                      | -                            | -  | -                      | 2,706,956           |
| Total unrestricted net assets                   | 6,520,955                      | -                            | -  | -                      | 6,520,955           |
| Temporarily restricted                          | 307,438                        | -                            | -  | -                      | 307,438             |
| Permanently restricted                          | 35,000                         | -                            | -  | -                      | 35,000              |
| Non-controlling interests:                      |                                |                              |  |                        |                     |
| Limited partners' equity in limited partnership | -                              | -                            | 613,071                                      | (14,619)               | 598,452             |
| Total net assets                                | 6,863,393                      | -                            | 613,071                                      | (14,619)               | 7,461,845           |
| <b>Total liabilities and net assets</b>         | <b>\$ 9,163,753</b>            | <b>\$ 54,219</b>             | <b>\$ 649,403</b>                            | <b>\$ (68,838)</b>     | <b>\$ 9,798,537</b> |

**Metro Community Development, Inc. and Subsidiaries**  
**Consolidating Statement of Activities**  
**For the Year Ended June 30, 2017**

|   | Metro Community<br>Development | Metro Housing<br>Partnership | Metawaneenee<br>Hills Limited<br>Partnership | Eliminating<br>Entries | Total      |
|---|--------------------------------|------------------------------|--|------------------------|------------|
| <b>Support and revenues</b>                         |                                |                              |  |                        |            |
| Local support                                       | \$ 467,976                     | \$ -                         | \$ -   | \$ -                   | \$ 467,976 |
| State grants  | 168,650                        | -                            | -  | -                      | 168,650    |
| Other grants  | 80,211                         | -                            | -  | -                      | 80,211     |
| Federal grants                                      | 2,598,549                      | -                            | -  | -                      | 2,598,549  |
| NeighborWorks America grant                         | 299,500                        | -                            | -  | -                      | 299,500    |
| Fees for services                                   | 161,553                        | -                            | -  | -                      | 161,553    |
| Interest income - loans receivable                  | 126,519                        | -                            | -  | -                      | 126,519    |
| Investment income                                   | 93,278                         | -                            | -  | -                      | 93,278     |
| In-kind contributions                               | 203,011                        | -                            | -  | -                      | 203,011    |
| Rental income                                       | -                              | -                            | 71,471                                       | -                      | 71,471     |
| Other income  | -                              | -                            | 5,486  | -                      | 5,486      |
| Net assets released from restrictions               | -                              | -                            | -  | -                      | -          |
| Total support and revenues                          | 4,199,247                      | -                            | 76,957                                       | -                      | 4,276,204  |
| <b>Expenses</b>                                     |                                |                              |  |                        |            |
| Salaries and wages                                  | 733,045                        | -                            | -  | -                      | 733,045    |
| Payroll taxes and fringe benefits                   | 209,100                        | -                            | -  | -                      | 209,100    |
| Professional fees                                   | 67,889                         | -                            | -  | -                      | 67,889     |
| Amortization and provision for deferred loan losses | 93,898                         | -                            | -  | -                      | 93,898     |
| Communications and marketing                        | 2,256                          | -                            | -  | -                      | 2,256      |
| Community projects                                  | 1,200                          | -                            | -  | -                      | 1,200      |
| Consultants and contracting                         | 260,570                        | -                            | -  | -                      | 260,570    |
| Insurance   | 8,632                          | -                            | -  | -                      | 8,632      |
| Memberships and subscriptions                       | 18,066                         | -                            | -  | -                      | 18,066     |
| Rent  | 39,970                         | -                            | -  | -                      | 39,970     |
| Equipment purchase and maintenance                  | 46,656                         | -                            | -  | -                      | 46,656     |
| Supplies and materials                              | 39,003                         | -                            | -  | -                      | 39,003     |
| Travel  | 35,962                         | -                            | -  | -                      | 35,962     |
| Telephone and utilities                             | 12,157                         | -                            | -  | -                      | 12,157     |
| Depreciation  | 4,000                          | -                            | 6,995  | -                      | 10,995     |

(Continued on next page)



**Metro Community Development, Inc. and Subsidiaries**  
**Consolidating Statement of Activities**  
**For the Year Ended June 30, 2017**

|                                      | Metro Community<br>Development | Metro Housing<br>Partnership | Metawaneenee<br>Hills Limited<br>Partnership | Eliminating<br>Entries | Total             |
|--------------------------------------|--------------------------------|------------------------------|--|------------------------|-------------------|
| <b>Expenses (continued)</b>          |                                |                              |  |                        |                   |
| Neighborhood Impact Program expenses | \$ 140,472                     | \$ -                         | \$ -   | \$ -                   | \$ 140,472        |
| In-kind expenses                     | 151,687                        | -                            | -  | -                      | 151,687           |
| Stipends and site costs - YouthBuild | 20,281                         | -                            | -  | -                      | 20,281            |
| Chronic Homeless Initiative expenses | 57,965                         | -                            | -  | -                      | 57,965            |
| HMIS expenses                        | 20,655                         | -                            | -  | -                      | 20,655            |
| Supportive housing expenses          | 1,622,524                      | -                            | -  | -                      | 1,622,524         |
| Other expenses                       | 82,909                         | -                            | 70,259                                       | -                      | 153,168           |
| Total expenses                       | 3,668,897                      | -                            | 77,254                                       | -                      | 3,746,151         |
| <b>Change in net assets</b>          | <u>\$ 530,350</u>              | <u>\$ -</u>                  | <u>\$ (297)</u>                              | <u>\$ -</u>            | <u>\$ 530,053</u> |