

Cornerstone Renter Equity and Subsidiary

Consolidated Financial Statements

December 31, 2017

(with Independent Auditors' Report)



Cornerstone Renter Equity and Subsidiary
Consolidated Statement of Financial Position
December 31, 2017

Assets

Current assets:

Cash and cash equivalents	\$ 160,974
Restricted cash - Renter equity™	111,299
Accounts receivable, net	26,760
Loans receivable, net	1,992
Prepaid expenses	827
Prepaid rent	<u>7,500</u>
Total current assets	<u>309,352</u>

Restricted deposits held in trust - funded:

Tenant deposits	15,110
Replacement reserves	20,696
Operating reserves	<u>80,498</u>
Total restricted deposits held in trust - funded	<u>116,304</u>

Property and equipment:

Office equipment	37,166
Buildings and improvements	380,780
Land	70,360
Capital improvements	3,928,053
Less accumulated depreciation	<u>(1,090,205)</u>
Total property and equipment	<u>3,326,154</u>

Other assets (less current portion):

Loans receivable, net	364,586
Prepaid rent	71,311
Deposits	435
Investment in partnership	<u>884,999</u>
Total other assets	<u>1,321,331</u>

\$ 5,073,141

See accompanying notes to the consolidated financial statements.

Cornerstone Renter Equity and Subsidiary
Consolidated Statement of Financial Position (Continued)
December 31, 2017

Liabilities and net assets

Current liabilities:

Notes payable - current portion	\$ 252,366
Accounts payable	42,282
Accrued expenses	27,388
Tenant deposits	15,110
Renter equity™ payable	<u>28,609</u>
	<u>365,755</u>

Notes payable, net of current portion 3,127,658

Total liabilities 3,493,413

Net assets:

Unrestricted	1,489,324
Temporarily restricted	<u>90,404</u>

Total net assets 1,579,728

\$ 5,073,141

See accompanying notes to the consolidated financial statements.

Cornerstone Renter Equity and Subsidiary
Consolidated Statement of Activities
Year ended December 31, 2017

Unrestricted net assets	
Revenues and other support	
Donations and grants	\$ 258,076
Other income	7,638
Fee revenue	27,983
Interest income	4,372
In-kind donation	75,000
Rental revenue (net of vacancies and rent concessions)	182,443
Financial revenue	172
Other revenue	<u>81,930</u>
Total unrestricted revenue	637,614
Net assets released from restrictions	<u>37,795</u>
Total unrestricted revenue and other support	<u>675,409</u>
Expenses	
Program services	561,712
Management and general	117,259
Fundraising	<u>42,118</u>
Total expenses	<u>721,089</u>
Change in unrestricted net assets	<u>(45,680)</u>
Temporarily restricted net assets	
Restricted contributions	4,603
Net assets released from restrictions	<u>(37,795)</u>
Change in temporarily restricted net assets	<u>(33,192)</u>
Change in net assets	(78,872)
Net assets, beginning of year	<u>1,658,600</u>
Net assets, end of year	\$ <u>1,579,728</u>

See accompanying notes to the consolidated financial statements.

Cornerstone Renter Equity and Subsidiary
Consolidated Statement of Cash Flows
Year ended December 31, 2017

Cash flows from operating activities:	
Change in net assets	\$ (78,872)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	164,108
Forgiveness of debt	(80,000)
Changes in certain assets and liabilities:	
Restricted cash	11,943
Accounts receivable	2,362
Deposits held in trust	11,288
Pledges receivable	51,875
Grants receivable	1,600
Prepaid expenses	873
Prepaid rent	7,500
Accounts payable	22,329
Accrued expenses	4,831
Tenant deposits	(836)
Renter equity TM payable	<u>20,309</u>
Net cash provided by operating activities	<u>139,310</u>
Cash flows from investing activities:	
Proceeds from loans receivable	423
Purchase of property and equipment	(17,235)
Investment in partnership	<u>(584,999)</u>
Net cash used in investing activities	<u>(601,811)</u>
Cash flows from financing activities:	
Proceeds from notes payable	584,999
Payments on notes payable	<u>(108,409)</u>
Net cash provided by financing activities	<u>476,590</u>
Net change in cash and cash equivalents	14,089
Cash and cash equivalents at beginning of year	<u>146,885</u>
Cash and cash equivalents at end of year	\$ <u>160,974</u>
Supplemental disclosure of cash flow information:	
Interest paid	\$ <u>10,711</u>

See accompanying notes to the consolidated financial statements.

Cornerstone Renter Equity and Subsidiary
Consolidated Statement of Functional Expenses
Year ended December 31, 2017

	Program services	Management and general	Fundraising	Total
Predevelopment expenses	\$ 2,487	-	8,789	11,276
Salary and payroll related expenses	177,774	51,275	33,329	262,378
Office and other operating expenses	169,746	65,678	-	235,424
Depreciation	163,802	306	-	164,108
Interest to lenders	10,711	-	-	10,711
Renter equity™	<u>37,192</u>	<u>-</u>	<u>-</u>	<u>37,192</u>
	<u>\$ 561,712</u>	<u>117,259</u>	<u>42,118</u>	<u>721,089</u>

See accompanying notes to the consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The following accounting principles and practices of Cornerstone Renter Equity and Subsidiary are set forth to facilitate the understanding of data presented in the consolidated financial statements.

Nature of Operations and Principles of Consolidation

Cornerstone Renter Equity (a not-for-profit organization) (the "Organization"), formerly Cornerstone Corporation for Shared Equity, was founded in 1986 as Cornerstone Community Loan Fund, a community loan fund focused on early stage financing for Cincinnati affordable housing projects. Since that time, the Organization's mission has evolved to improving lives and communities through housing, supportive services and Renter Equity®. Renter Equity, the Organization's principal focus, is a comprehensive system that attacks the drivers of generational poverty. The platform for Renter Equity is affordable housing and the key pillars upon which the system is built are:

1. Building and strengthening communities,
2. Individual wealth development, and
3. Supportive services and individual development.

The Organization administers Renter Equity within its own affordable housing projects and projects owned by other developers. The system aligns interests of communities, property owners, managers and residents and the Organization partners with best of class affordable housing developers and social service providers in fulfillment of its mission. The number of households and people served for the year ended 2017 were as follows:

Households	59
People	121

Principles of Consolidation

The Organization's consolidated financial statements include the accounts of Cornerstone Renter Equity and its wholly-owned subsidiary, Race Republic and Green, LLC (RRG), an Ohio limited liability corporation. RRG was formed to construct, own, and operate a 25 unit affordable rental housing project located in Cincinnati, Ohio intended for rental to individuals and families of low and moderate income. RRG began leasing apartments in 2011. Lease terms are typically one year or less. The operating agreement provides that RRG shall continue in perpetuity unless it is dissolved and terminated earlier by provisions of the agreement. RRG became 100% owned by the Organization during 2017. All significant inter-organizational balances and transactions have been eliminated for purposes of this presentation.

Use of Estimates

The process of preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Certain estimates relate to unsettled transactions and events as of the date of the consolidated financial statements. Other estimates relate to assumptions about ongoing operations and may impact future periods. Accordingly, upon settlement, actual results may differ from estimated amounts.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in checking and money market accounts. At times, cash and money market balances may be in excess of the insurance coverage provided by the Federal Deposit Insurance Corporation. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash. Restricted cash is restricted for expenditure in association with the Renter Equity program.

Accounts, Pledges, Grants, and Loans Receivable

Accounts, grants, and loans receivable are stated at their unpaid balances, less an allowance for losses. Pledges are stated at net present value. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Organization's policy to charge off uncollectible receivables when management determines the receivable will not be collected.

Accounts Receivable - Tenants, Net

Accounts receivable - tenants represents tenant monthly rent charges that are due on the first day of the month. Tenants who are evicted or move out are charged with any damages or cleaning fees. The project accounts for all past due rents at the contract rate and recognizes other tenant charges on the date assessed at the actual amount due. The project does not accrue interest on tenant receivable balances. Upon the tenants' leaving, any tenant receivable deemed uncollectible is written off. Based on these criteria, management has determined an allowance for doubtful accounts of \$1,200 at December 31, 2017.

Loan Loss Allowance

The Organization evaluates its loan receivable portfolio on a quarterly basis to determine, on a loan-by-loan basis, the appropriate amount of the allowance. The loans are assigned an allowance percentage based on defined risk levels ranging from 1% to 5%. Based on these criteria, the Organization has estimated the loan loss allowance at \$362 for the year ended December 31, 2017.

Restricted Deposits Held in Trust - Funded

Restricted deposits held in trust - funded include tenant deposits and replacement reserves. The reserve has been established in an amount considered by the members to be adequate, and in accordance with the operating agreement and lender requirements. Use of the reserves is restricted as defined in the operating agreement and, therefore, has been excluded from cash in the accompanying statement of financial position and for statement of cash flows purposes.

Tenant Deposits

Tenant deposits are money collected from tenants as security for liabilities paid by RRG on the tenants' behalf. Deposits can be used by RRG when tenants do not pay their obligations.

Replacement Reserves

The operating agreement states that a replacement reserve account shall be maintained by RRG and utilized to make capital improvements.

Operating Reserves

Operating reserves must be maintained for not less than fifteen years from the date the certificate of occupancy is issued. The operating reserve shall be used to fund operating expenses and debt service payments in the absence of cash.

Property and Equipment

Property and equipment are stated at cost and depreciated over the estimated useful lives of the related assets. Depreciation is computed using the straight-line method. Maintenance and repairs are charged to operations when incurred. Significant betterments and renewals are capitalized. The useful lives of property and equipment for purposes of computing depreciation are:

Office Equipment	3-7 years
Land Improvements	15 Years
Buildings	20 Years
Capital Improvements	27.5 Years

Investments in Partnerships

The Organization has a 0.051% ownership interest in a related organization, Abington Race and Pleasant, LLC. The Organization records the investment at cost as any earnings would be inconsequential.

Classes of Net Assets

Unrestricted Net Assets

Unrestricted, undesignated net assets may be used at the discretion of the Organization.

Temporarily Restricted Net Assets

The Organization reports gifts of cash and other assets as temporarily restricted support if they are received with donor restrictions that limit the use of the donated assets for specific purposes or periods. When a donor restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as released from restriction.

Permanently Restricted Net Assets

The Organization had no permanently restricted net assets as of December 31, 2017.

Revenue Recognition

Rental revenue from tenants is recognized net of vacancies. All other revenue is recorded when earned.

Contributions

Received

The Organization reports contributions received as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restrictions expire or are satisfied in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction.

Non-Cash

Non-cash donations are stated at their fair value on the date of the contribution, or the value of the services rendered.

In-Kind

The Organization reports revenue for the fair value of contributed services received where the services required specialized skills, and are provided by individuals possessing those skills, and represent services that would have been paid for had they not been donated. During the year ended December 31, 2017, donated services amounted to \$75,000.

Financing

The Cornerstone Loan Fund was organized in 1986 by socially conscious investors in order to make flexible, low cost loans and grants available to community based non-profit organizations rehabilitating housing in greater Cincinnati. It later merged with Homesource, a similar Northern Kentucky non-profit. The Cornerstone-Homesource Loan Fund (the Fund) has helped 30 organizations finance 350 units of housing, for sale and for rent. The Fund retains a small long-term portfolio of amortizing loans; however, it no longer seeks to extend loans to affordable housing projects.

The Fund provides residents within Renter Equity communities a low-cost alternative to payday and other predatory consumer lenders. After six months of residency in a Renter Equity community, a resident may borrow up to one month's rent at any time to be repaid within six months. The resident must be in good standing on their rent payments at the time of the loan request and demonstrate the ability to repay the loan. The Fund will also consider larger loans for emergencies with repayment schedules generally not to exceed one year.

Renter Equity Wealth Development

After 15 years of focusing on lending to affordable housing projects, the Organization recognized that affordable housing development and funding alone were insufficient to attack the drivers of generational poverty. In addition to safe, quality housing and supportive services, the Organization developed a wealth-building element for participating residents that affords them a financial safety net for unforeseen circumstances and the opportunity to develop meaningful savings to achieve their own life goals.

Resident wealth development is conditioned on three things:

1. Paying rent on time;
2. Performing tasks in the community commensurate with their capability; and
3. Attending a monthly meeting resident community meeting or an educational, general assistance, or support group meeting provided or approved by the Organization.

Residents vest in earned Renter Equity after three years of continuous residency and have the opportunity to earn up to \$10,000 during each ten-year period.

Income Taxes

The Organization is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization is not a private foundation as defined in Section 509(a)(1) of the Internal Revenue Code. RRG is a single member limited liability company for which its tax liabilities and benefits pass directly to its member.

The Organization has adopted the provisions of the accounting pronouncement related to accounting for uncertainty in income taxes. The Organization recognized no interest or penalties in the consolidated statements of activities for the year ended December 31, 2017. If the situation arose in which the Organization would have interest to recognize, it would recognize this as interest expense, and penalties would be recognized in other expenses. The Organization is not currently under audit nor has the Organization been contacted.

Based on the evaluation of the Organization's tax positions, management believes all positions taken would be upheld under an examination. Therefore, no provision for the effects of uncertain tax positions has been recorded for the year ended December 31, 2017.

Subsequent Events

The Organization has evaluated subsequent events through August 13, 2018 which is the date the consolidated financial statements were available to be issued.

2. LOANS RECEIVABLE:

Loans receivable consist of various unsecured loans to organizations due on various dates through December 2056. Interest rates range from 3% to 4%. Interest and principal payments are received when the borrowing organizations have sufficient cash flow to service the debt.

Loans receivable at December 31, 2017 are summarized as follows:

Related party	\$ 364,948
Other notes receivable	<u>1,992</u>
	366,940
Less loan loss allowance	<u>(362)</u>
	366,578
Less current portion	<u>1,992</u>
Long-term portion	<u>\$ 364,586</u>

The related party note receivable shall accrue interest at 2.07% per annum and be payable with the principal balance in December 2056.

3. INVESTMENTS IN PARTNERSHIPS:

Beginning in 2016, the Organization had an ownership interest in Abington Race and Pleasant, LLC. At December 31, 2017, the investment at cost was \$884,999, which approximates fair value.

4. LINE OF CREDIT:

The Organization has available an unsecured \$75,000 line of credit with a bank. No amount was outstanding at December 31, 2017. Interest is payable monthly at 7.75% and the line matured in April 2018 and was renewed through April 2019.

5. NOTES PAYABLE:

Various

The Organization has various unsecured loans with individuals and organizations due on various dates through June 2023. Interest rates range from 0% to 4% and are paid on a monthly or semi-annual basis.

\$ 937,999

City of Cincinnati

The Organization has a note payable to the City of Cincinnati in the original amount of \$1,200,000. The loan charges interest at 8% compounded annually. The loan required yearly principal and interest payments of \$140,195 with the final payment date in May, 2027. The payments were suspended and the note was scheduled to be forgiven annually starting in May 2013 and for fifteen years thereafter on submittal by the Company of an annual satisfactory site inspection report and an updated tenant unit occupancy report for the property acquired by the note payable. In the event of non-compliance, principal and interest will be due within 10 days of receipt of a notice of determination.

800,000

Financial Institutions

Huntington National Bank

The Organization has a note payable to Huntington National Bank. Payments of \$36,959 are due annually, and began in January 2013. The interest rate of 2.25% is compounded annually with the final payment due in November 2042.

701,065

Federal Home Loan Bank

The Organization has a note payable to Federal Home Loan Bank. If the property is used for its assigned purpose, the full principal amount will be forgiven in November 2042.

544,960

St. John the Baptist of the Order of Friars Minor

The Organization has a note payable to St. John the Baptist of the Order of Friars Minor charging an interest rate of 0% if net operating income to debt service is less than 1.15 for the year. If not, the note will charge an interest rate of 5.1%. Payments of interest will be due on June 1st following the year end. Debt operating income to debt service was less than 1.15 in 2017. The note is collateralized by a mortgage on real property. Principal payments of \$600 are payable monthly beginning January 2013 and the final payment is due in June 2039.

180,000

Cornerstone Renter Equity and Subsidiary
Consolidating Statement of Financial Position
December 31, 2017

Assets

	<u>Cornerstone Renter Equity</u>	<u>Race, Republic & Green, LLC</u>	<u>Eliminations</u>	<u>Consolidated</u>
Current assets:				
Cash and cash equivalents	\$ 149,182	11,792	-	160,974
Restricted cash - Renter equity™	111,299	-	-	111,299
Accounts receivable, net	24,192	2,568	-	26,760
Loans receivable, net	5,601	-	(3,609)	1,992
Prepaid expenses	-	827	-	827
Prepaid rent	<u>7,500</u>	<u>-</u>	<u>-</u>	<u>7,500</u>
	<u>297,774</u>	<u>15,187</u>	<u>(3,609)</u>	<u>309,352</u>
Restricted deposits held in trust - funded:				
Tenant deposits	-	15,110	-	15,110
Replacement reserves	-	20,696	-	20,696
Operating reserves	-	80,498	-	80,498
Total restricted deposits held in trust - funded	<u>-</u>	<u>116,304</u>	<u>-</u>	<u>116,304</u>
Property and equipment:				
Office equipment	37,166	-	-	37,166
Buildings and improvements	-	380,780	-	380,780
Land	-	70,360	-	70,360
Capital improvements	<u>-</u>	<u>3,928,053</u>	<u>-</u>	<u>3,928,053</u>
	37,166	4,379,193	-	4,416,359
Less accumulated depreciation	<u>27,844</u>	<u>1,062,361</u>	<u>-</u>	<u>1,090,205</u>
	<u>9,322</u>	<u>3,316,832</u>	<u>-</u>	<u>3,326,154</u>
Other assets (less current portion):				
Loans receivable, net	493,269	-	(128,683)	364,586
Prepaid rent	71,311	-	-	71,311
Deposits	435	-	-	435
Investment in partnership	<u>988,649</u>	<u>-</u>	<u>(103,650)</u>	<u>884,999</u>
	<u>1,553,664</u>	<u>-</u>	<u>(232,333)</u>	<u>1,321,331</u>
	<u>\$ 1,860,760</u>	<u>3,448,323</u>	<u>(235,942)</u>	<u>5,073,141</u>

See independent auditors' report.

Cornerstone Renter Equity and Subsidiary
 Consolidating Statement of Financial Position (Continued)
 December 31, 2017

Liabilities and net assets

	Cornerstone Renter Equity	Race, Republic & Green, LLC	Eliminations	Consolidated
Current liabilities:				
Notes payable - current portion	\$ 144,000	111,975	(3,609)	252,366
Accounts payable	4,385	37,897	-	42,282
Accrued expenses	-	27,388	-	27,388
Tenant deposits	-	15,110	-	15,110
Renter equity™ payable	28,609	-	-	28,609
Total current liabilities	<u>176,994</u>	<u>192,370</u>	<u>(3,609)</u>	<u>365,755</u>
Notes payable, net of current portion	<u>793,999</u>	<u>2,462,342</u>	<u>(128,683)</u>	<u>3,127,658</u>
Total liabilities	<u>970,993</u>	<u>2,654,712</u>	<u>(132,292)</u>	<u>3,493,413</u>
Net assets:				
Unrestricted	799,363	793,611	(103,650)	1,489,324
Temporarily restricted	<u>90,404</u>	<u>-</u>	<u>-</u>	<u>90,404</u>
Total net assets	<u>889,767</u>	<u>793,611</u>	<u>(103,650)</u>	<u>1,579,728</u>
	<u>\$ 1,860,760</u>	<u>3,448,323</u>	<u>(235,942)</u>	<u>5,073,141</u>

See independent auditors' report.

Cornerstone Renter Equity and Subsidiary
Consolidating Statement of Activities
Year Ended December 31, 2017

	<u>Cornerstone Renter Equity</u>	<u>Race, Republic & Green, LLC</u>	<u>Eliminations</u>	<u>Consolidated</u>
Unrestricted net assets:				
Revenues and other support				
Donations and grants	\$ 258,076	-	-	258,076
Other income	7,638	-	-	7,638
Fee revenue	46,770	-	(18,787)	27,983
Interest income	4,372	-	-	4,372
In-kind donation	75,000	-	-	75,000
Rental revenue (net of vacancies and rent concessions)	-	182,443	-	182,443
Financial revenue	-	172	-	172
Other revenue	-	92,785	(10,855)	81,930
Total unrestricted revenue	<u>391,856</u>	<u>275,400</u>	<u>(29,642)</u>	<u>637,614</u>
Net assets released from restrictions	37,795	-	-	37,795
Total unrestricted revenue and other support	<u>429,651</u>	<u>275,400</u>	<u>(29,642)</u>	<u>675,409</u>
Expenses:				
Program services	228,164	352,335	(18,787)	561,712
Management and general	117,259	-	-	117,259
Fundraising	42,118	-	-	42,118
Total expenses	<u>387,541</u>	<u>352,335</u>	<u>(18,787)</u>	<u>721,089</u>
Change in unrestricted net assets	<u>42,110</u>	<u>(76,935)</u>	<u>(10,855)</u>	<u>(45,680)</u>
Temporarily restricted net assets				
Restricted contributions	4,603	-	-	4,603
Net assets released from restrictions	<u>(37,795)</u>	<u>-</u>	<u>-</u>	<u>(37,795)</u>
Change in temporarily restricted net assets	<u>(33,192)</u>	<u>-</u>	<u>-</u>	<u>(33,192)</u>
Change in net assets	<u>8,918</u>	<u>(76,935)</u>	<u>(10,855)</u>	<u>(78,872)</u>
Net assets, beginning of year	<u>880,849</u>	<u>870,546</u>	<u>(92,795)</u>	<u>1,658,600</u>
Net assets, end of year	<u>\$ 889,767</u>	<u>793,611</u>	<u>(103,650)</u>	<u>1,579,728</u>

See independent auditors' report.

