

**JUSTINE PETERSEN HOUSING AND REINVESTMENT
CORPORATION AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR 2016)

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Independent Auditor's Report

To the Board of Directors
Justine Petersen Housing and Reinvestment Corporation
and Subsidiaries
St. Louis, Missouri

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Justine Petersen Housing and Reinvestment Corporation (a Missouri not-for-profit corporation) and Subsidiaries (collectively, the "Corporation"), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2017, and the changes in its net assets, functional expenses, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Comparative Summarized

We have previously audited the Justine Petersen Housing and Reinvestment Corporation & Affiliates 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 26, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules on pages 46-48 are presented for purposes of additional analysis of the consolidated financial statements and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated 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 April 16, 2018, on our consideration of the Corporation's 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 the Corporation's internal control over financial reporting and compliance.

Brown Smith Wallace, LLP

St. Louis, Missouri
April 16, 2018

**JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION
AND SUBSIDIARIES**

Consolidated Statements of Financial Position

December 31, 2017 and 2016

(See Independent Auditor's Report)

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets		
Cash	\$ 556,572	\$ 1,150,010
Restricted funds	2,554,327	3,493,364
Accounts and grants receivable	570,386	592,985
Interest and fees receivable	567,489	437,364
Notes receivable, net - current position	6,074,630	3,452,095
Other receivables	198,416	-
Prepaid income tax	23,774	-
Prepaid expenses and other	19,292	11,194
Total Current Assets	10,564,886	9,137,012
Notes receivable, net	11,154,366	13,231,181
Other note receivable	2,200,000	2,200,000
Property and equipment, net	1,107,747	1,075,433
Rental real estate, net	5,188,652	5,087,689
Investment in real estate	4,665,956	2,509,434
Investment in Good Life Growing	88,068	-
Other assets	178,119	147,341
TOTAL ASSETS	\$ 35,147,794	\$ 33,388,090

The accompanying notes are an integral part of these consolidated financial statements.

**JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION
AND SUBSIDIARIES**

Consolidated Statements of Financial Position - Continued

December 31, 2017 and 2016

(See Independent Auditor's Report)

	<u>2017</u>	<u>2016</u>
LIABILITIES AND MEMBER'S EQUITY		
Current Liabilities		
Current portion of long-term debt	\$ 8,530,729	\$ 6,104,364
Accounts payable and accrued expenses	481,613	303,197
Interest payable	67,021	75,739
Income taxes payable	-	42,377
Client held funds	306,405	181,430
Tenant security deposits	21,045	21,955
Deferred revenue	46,096	213,350
Total Current Liabilities	9,452,909	6,942,412
Long-Term Liabilities		
Deferred income taxes	92,000	240,000
Long-term debt	15,970,836	17,337,313
Total Long-Term Liabilities	16,062,836	17,577,313
Total Liabilities	25,515,745	24,519,725
Net Assets		
Unrestricted		
Undesignated	8,153,173	7,377,168
Non-controlling interest	1,000,000	1,000,000
Temporarily restricted	478,876	491,197
Total Net Assets	9,632,049	8,868,365
TOTAL LIABILITIES AND NET ASSETS	\$ 35,147,794	\$ 33,388,090

The accompanying notes are an integral part of these consolidated financial statements.

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Activities

For the Year Ended December 31, 2017 (with comparative totals for 2016)

(See Independent Auditor's Report)

	2017		2016	
	Unrestricted	Temporarily Restricted	Total	(Comparative Totals Only)
Public Support and Revenues				
Contributions and grants	\$ 2,853,286	\$ 1,199,714	\$ 4,053,000	\$ 3,075,659
Donated services	144,083	-	144,083	119,986
Donated property	1,078,000	-	1,078,000	1,200,000
Program service fees				
Real estate brokerage income	15,317	-	15,317	27,142
Loan and administrative fees	819,964	-	819,964	793,786
Credit reporting fees	11,922	-	11,922	13,171
Developer's fees	100,825	-	100,825	142,456
Rental income	317,391	-	317,391	334,290
Miscellaneous	208,654	-	208,654	195,001
Interest	1,703,971	-	1,703,971	1,671,044
	<u>7,253,413</u>	<u>1,199,714</u>	<u>8,453,127</u>	<u>7,572,535</u>
Net assets released from restrictions	1,212,035	(1,212,035)	-	-
Total revenues and public support	<u>8,465,448</u>	<u>(12,321)</u>	<u>8,453,127</u>	<u>7,572,535</u>
Expenses				
Program services:				
Housing	1,274,150	-	1,274,150	1,211,829
Economic development	5,742,934	-	5,742,934	5,100,828
Savings	441,466	-	441,466	331,642
Total Program Services	<u>7,458,550</u>	<u>-</u>	<u>7,458,550</u>	<u>6,644,299</u>
Supporting Activities:				
Management and general	162,595	-	162,595	143,370
Fundraising	68,298	-	68,298	62,186
Total Supporting Activities	<u>230,893</u>	<u>-</u>	<u>230,893</u>	<u>205,556</u>
Total expenses	<u>7,689,443</u>	<u>-</u>	<u>7,689,443</u>	<u>6,849,855</u>
CHANGES IN NET ASSETS - TOTAL	<u>776,005</u>	<u>(12,321)</u>	<u>763,684</u>	<u>722,680</u>
Net assets at beginning of year	<u>8,377,168</u>	<u>491,197</u>	<u>8,868,365</u>	<u>8,145,685</u>
Net assets at end of year	<u>\$ 9,153,173</u>	<u>\$ 478,876</u>	<u>\$ 9,632,049</u>	<u>\$ 8,868,365</u>

The accompanying notes are an integral part of these consolidated financial statements.

**JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION
AND SUBSIDIARIES**

Consolidated Statements of Functional Expenses

For the Year Ended December 31, 2017 (with comparative totals for 2016)

(See Independent Auditor's Report)

	2017							2016	
	Program Services			Supporting Services				Total	(Comparative Totals Only)
	Housing	Economic Development	Savings	Total Program Expenses	Admin	Fund Raising			
Salaries and wages	\$ 117,221	\$ 1,248,260	\$ 202,325	\$ 1,567,806	\$ 75,005	\$ 32,118	\$ 1,674,929	\$ 1,462,884	
Payroll taxes	9,180	97,766	15,847	122,793	5,875	2,516	131,184	106,784	
Employee benefits	10,516	111,990	18,152	140,658	6,729	2,882	150,269	127,329	
Advertising	3,416	36,379	5,897	45,692	2,186	936	48,814	7,012	
Client assistance	-	77,830	-	77,830	-	-	77,830	101,441	
Conferences and seminars	3,312	35,270	5,717	44,299	2,119	908	47,326	53,664	
Credit report charges	2,345	24,966	4,047	31,358	1,500	642	33,500	40,305	
Delivery and postage	2,087	22,221	3,602	27,910	1,335	572	29,817	25,227	
Depreciation and amortization	12,358	104,603	16,955	133,916	6,285	2,691	142,892	62,720	
Depreciation - rental real estate	201,404	-	-	201,404	-	-	201,404	262,081	
Donated services	10,083	107,380	17,405	134,868	6,452	2,763	144,083	119,986	
Dues and subscriptions	743	7,893	1,279	9,915	474	203	10,592	15,696	
Equipment rental and maintenance	2,425	25,815	4,184	32,424	1,551	664	34,639	29,050	
Impairment and programmatic subsidized real estate loss	585,496	-	-	585,496	-	-	585,496	481,853	
Income tax expense (benefit)	-	(40,093)	-	(40,093)	-	-	(40,093)	46,147	
Insurance	7,405	20,759	3,365	31,529	1,247	534	33,310	58,031	
Interest	10,929	820,808	11,064	842,801	-	-	842,801	680,320	
Miscellaneous	322	3,426	555	4,303	206	88	4,597	22,011	
Occupancy	7,218	76,855	12,457	96,530	4,618	1,977	103,125	86,581	
Office supplies	7,347	74,757	12,113	94,217	4,491	1,923	100,631	84,318	
Professional fees	53,005	564,452	91,490	708,947	37,017	14,523	760,487	465,271	
Provisions for bad debts and loan losses	8,220	2,229,319	120	2,237,659	-	-	2,237,659	2,206,689	
Recording fees	13	664	42	719	-	-	719	3,680	
Rental real estate maintenance	176,488	-	-	176,488	-	-	176,488	176,063	
Repairs and maintenance	1,072	11,418	1,851	14,341	686	294	15,321	6,553	
Taxes and licenses	35,013	10,630	1,723	47,366	639	274	48,279	33,189	
Telephone	1,991	21,208	3,438	26,637	1,274	546	28,457	20,591	
Travel and training	4,541	48,358	7,838	60,737	2,906	1,244	64,887	64,379	
Total 2017 Functional Expenses	\$ 1,274,150	\$ 5,742,934	\$ 441,466	\$ 7,458,550	\$ 162,595	\$ 68,298	\$ 7,689,443		
Total 2016 Functional Expenses	\$ 1,211,829	\$ 5,100,828	\$ 331,642	\$ 6,644,299	\$ 143,370	\$ 62,186		\$ 6,849,855	

The accompanying notes are an integral part of these consolidated financial statements.

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2017 and 2016
(See Independent Auditor's Report)

	2017	2016
Cash flows from operating activities:		
Changes in net assets	\$ 763,684	\$ 722,680
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	344,296	324,801
Amortization of deferred financing fees	31,998	31,998
Deferred income taxes	(148,000)	(89,000)
Non-cash donations of property	(1,078,000)	(1,200,000)
Impairment and subsidized programmatic real estate loss	585,496	481,853
Gain on sale of assets	-	(2,367)
Provisions for bad debts and loan losses	2,237,659	2,206,689
Change in assets and liabilities:		
Restricted funds	939,037	(1,433,715)
Accounts and grants receivable	19,826	87,231
Interest receivable	(130,125)	(4,305)
Other receivables	(198,416)	-
Prepaid expenses and other	(8,098)	3,073
Accounts payable and accrued expenses	178,416	85,159
Interest payable	(8,718)	48,531
Prepaid income tax	(23,774)	-
Income taxes payable	(42,377)	33,927
Client held funds	124,975	33,606
Tenant security deposits	(910)	5,501
Deferred revenue	(167,254)	37,226
Net cash provided by operating activities	3,419,715	1,372,888
Cash flows from investing activities:		
Lending of notes receivable	(10,595,437)	(12,845,364)
Collections on notes receivable	7,845,606	8,724,395
Website and portal development	(101,333)	(56,939)
Purchase of property and equipment	(104,651)	(7,060)
Proceeds from sale of property and equipment	-	3,000
Purchase of rental real estate	(343,710)	(427,213)
Purchase of investment real estate	(2,391,214)	(1,421,302)
Proceeds from sale of assets - rental real estate	131,157	-
Proceeds from sale of assets - investment in real estate	606,607	263,710
Other investments	(88,068)	-
Net cash used in investing activities	(5,041,043)	(5,766,773)

The accompanying notes are an integral part of these consolidated financial statements.

**JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION
AND SUBSIDIARIES**

Consolidated Statements of Cash Flows - Continued

For the Years Ended December 31, 2017 and 2016

(See Independent Auditor's Report)

	<u>2017</u>	<u>2016</u>
Cash flows from financing activities:		
Capital contributed - noncontrolling interest	-	1,000,000
Proceeds from long-term debt	6,126,857	7,506,367
Payments on long-term debt	(5,098,967)	(3,561,922)
Net cash provided by financing activities	1,027,890	4,944,445
Net increase (decrease) in cash	(593,438)	550,560
Cash - beginning of year	1,150,010	599,450
Cash - end of year	\$ 556,572	\$ 1,150,010

Supplemental disclosure of cash flow information:

Non-cash investing and financing activities:

Acquisition of investment in real estate through donation

\$ 1,078,000 \$ 1,200,000

Cash paid for:

Income taxes paid

\$ 150,284 \$ 101,220

Interest paid

\$ 851,519 \$ 631,789

The accompanying notes are an integral part of these consolidated financial statements.

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2017

(See Independent Auditor's Report)

Note A - Summary of Significant Accounting Policies

Organization

Justine PETERSEN, a Missouri not-for-profit corporation, was established in 1996 to promote housing, savings and economic development of low and moderate income families to build assets and create enduring change. Justine PETERSEN has formed several subsidiaries to achieve its mission and maximize funding opportunities from various federal, state and local agencies.

The Corporation is named after the late Justine M. Petersen, who helped hundreds of low to moderate income families in the St. Louis area purchase their own homes. Ms. Petersen worked with local banks to develop loan products for good homebuyers who had been shut out of the homeownership process because of income or location preference.

Basis of Presentation

The consolidated financial statements include the accounts of Justine Petersen Housing and Reinvestment Corporation ("Justine PETERSEN" or "JPHRC") and its subsidiaries (collectively the "Corporation"). All significant intercompany investments, transactions and account balances have been eliminated in the consolidation. Certain 2016 amounts have been reclassified to conform to the 2017 presentation.

Comparative Totals

The consolidated financial statements include certain summarized comparative information in total for the year ended December 31, 2016, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Corporation's consolidated financial statements for the year ended December 31, 2016 from which the summarized information was derived.

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note A - Summary of Significant Accounting Policies (Continued)

Information on Justine PETERSEN's subsidiaries includes the following:

Subsidiaries	Acronym	Year	State	Ownership/Relationship
Great Rivers Community Capital, Inc.	GRCC	1999	MO	Wholly-owned subsidiary
Great Rivers Community Trust	GRCT	2001	MO	Not-for-profit subsidiary
GRCCII, LLC	GR LLC	2016	MO	Wholly-owned subsidiary
Twenty First Homes, LP	TFH	2007	IL	99.9% owned subsidiary
Twenty First Homes Developers, NFP	TFHD	2007	IL	Wholly-owned NFP subsidiary (including 0.01% general partnership interest in TFH)
JP Emerging Markets Fund I, LLC	JPEM	2015	CO	Managing member

Great Rivers Community Capital, Inc. ("GRCC") was the first U.S. Department of the Treasury certified Community Development Financial Institution ("CDFI") in St. Louis. GRCC originates loans to low and moderate income individuals and families who are unable to access safe, affordable capital any place else. GRCC has its own Board of Directors; however, GRCC's operations are monitored by Justine PETERSEN's Board of Directors. GRCC is responsible for certain allocated overhead and administrative expenses, which are eliminated in consolidation.

Great Rivers Community Trust ("GRCT") was established to apply for tax credits through the Missouri Department of Economic Development and administer its Individual Development Account ("IDA") program. GRCT and Justine PETERSEN are governed by the same Board of Directors.

GRCCII, LLC ("GR LLC") was established in 2016 to facilitate the purchase of a discounted note receivable.

Twenty First Homes, LP ("TFH") was established to construct, own and manage 20 low income single family homes in Granite City, Illinois. TFH completed the construction of the homes in January 2011. Currently, Justine PETERSEN is the 99.99% limited partner, and the 0.01% general partner listed below, is an entity solely owned by Justine PETERSEN.

Twenty First Homes Developers, NFP ("TFHD"), is a general partner to TFH, the limited partnership that owns the 20 low income single family residences in Granite City, Illinois previously mentioned.

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note A - Summary of Significant Accounting Policies (Continued)

JP Emerging Markets Fund I, LLC ("JPEM") was established to further the mission of Justine PETERSEN including investment activities related to economic development in low and moderate income areas or targeted redevelopment areas and other investments within certain geographic areas as determined by Justine PETERSEN. JPEM's initial members are Justine PETERSEN, who is the managing member, and Local Church Ministries Church Building and Loan Fund, who is a non-manager member. Non-manager member units do not have voting rights, except as otherwise agreed. Members share net income, gain, net loss, and distributions of JPEM in accordance with their percentage of units. The initial investment totaled \$1,000,000 which was contributed in 2016. The interest of non-manager members in JPEM at December 31, 2017 of \$1,000,000 is reflected as the 'non-controlling interest' portion of unrestricted net assets on the accompanying consolidated statement of financial position. JPEM shall dissolve and wind up its affairs at December 31, 2025 unless the operating agreement is amended to extend the term.

Basis of Accounting and Presentation

The accompanying consolidated financial statements of the Corporation have been prepared on the accrual basis of accounting.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-205. Under FASB ASC 958-205-05, *Not-for-Profit Entities, Presentation of Financial Statements*, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets - unrestricted net assets, temporarily restricted net assets and permanently restricted net assets as follows:

Unrestricted – Those resources over which the Board of Directors has discretionary control.

Temporarily Restricted – Those resources subject to donor-imposed or time restrictions that will be satisfied by actions of the Corporation or the passage of time.

Permanently Restricted – Those resources subject to donor-imposed restrictions that will be maintained permanently by the Corporation. There were no permanently restricted net assets as of December 31, 2017.

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note A - Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

Concentration of Credit Risk

The Corporation considers all checking and savings accounts, which are available for the Corporation's operating needs, to be cash equivalents. The Corporation maintains cash deposits in various financial institutions. The account balances were insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per financial institution. At various times throughout the years ended December 31, 2017 and 2016, balance may have exceeded these insured limits. The Corporation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Restricted Funds

Restricted funds represent cash and cash equivalents that are restricted by donors and/or granting governmental agencies. Restricted funds also include tenant security and escrow deposits. For certain funding agencies, the Corporation is required to keep separate bank accounts.

Accounts and Grants Receivable

The Corporation provides an allowance for doubtful accounts equal to the estimated collection losses that will be incurred in collection of all receivables. The allowance is maintained at a level considered adequate to provide for potential account losses based on management's evaluation of the anticipated impact of current economic conditions, changes in character and size of the balance, past and expected future loss experience and other pertinent factors. Management is of the opinion that no allowance for accounts and grants receivable is necessary at December 31, 2017 and 2016.

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note A - Summary of Significant Accounting Policies (Continued)

Notes Receivable and Allowance for Credit Losses

Notes receivable are reported at the principal amounts outstanding, net allowances for credit losses. The allowance for credit losses is increased by provisions charged to expense and reduced by accounts charged off, net recoveries. The allowance of Justine PETERSEN and GRCC loan funds are maintained at a level considered adequate to provide for potential loan losses based on management's evaluation of the anticipated impact of current economic conditions, changes in the character and size of the balance, past and expected future loss experience and other pertinent factors. Past due status is determined based on contractual terms.

The Corporation's practice is to charge off any notes or portion of a note when the note is determined by management to be uncollectible due to the client's failure to meet repayment terms, the client's deteriorating or deteriorated financial condition, the depreciation of the underlying collateral, or for other reasons. Notes are placed on nonaccrual status when management believes, after considering economic conditions, business conditions, and collection efforts that the notes are impaired or collection of interest is doubtful. Uncollected interest previously accrued is charged off or an allowance is established by a charge to interest income. Interest income on nonaccrual loans is recognized only to the extent cash payments are received.

Loan origination and commitment fees, as well as certain direct origination costs, are deferred and amortized as a yield adjustment over the lives of the related loans using the interest method. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

Interest on notes is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

Property and Equipment and Rental Real Estate

Property and equipment purchased by the Corporation are valued at cost. Rental real estate is recorded at acquisition cost plus construction expenditures. Major additions and improvements are capitalized, while repairs and maintenance items are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

Buildings	40 years
Equipment	3 – 7 years
Furniture and fixtures	3 – 7 years
Rental real estate – buildings	10 – 27.5 years

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note A - Summary of Significant Accounting Policies (Continued)

Investment in Real Estate

Land, homes, and other developmental costs are stated at cost, plus interest and real estate taxes incurred during the period of development and rehabilitation.

Asset Impairment Assessments

The Corporation reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying value of such assets may not be fully recoverable. Impairment is recognized to the extent that the sum of undiscounted estimated future cash flows expected to result from use of the assets is less than carrying value. If impairment is recognized, the carrying value of the impaired asset is reduced to its fair value.

Deferred Revenue

Deferred revenue consists of funds received by granting agencies for micro-lending activities and rehabbing activities that have not yet occurred and prepaid taxes on donated properties. Justine PETERSEN serves as the fiscal agent for the St. Louis Unbanked Task Force and another not-for-profit organization. Deferred revenue contains funding on behalf of these two entities that have not been expended.

Deferred Financing Fees

Deferred financing fees are amortized over the life of the related debt. If debt is retired early, the related unamortized deferred financing costs are written off in the period the debt is retired. In 2016, the Corporation adopted Accounting Standards Update 2015-03, *Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs* regarding the presentation on the consolidated statement of financial position of the costs of issuance of debt and related amortization expense in the statement of activities. The new guidance requires presenting such unamortized costs as a direct deduction from the face amount of the debt. Amortization is required to be included with interest expense in the consolidated statement of activities. As of December 31, 2017 and 2016, respectively, the net carrying amount of deferred financing costs was \$146,825 and \$178,823. Interest expense pursuant to deferred financing fees was \$31,998 for the years ended December 31, 2017 and 2016.

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note A - Summary of Significant Accounting Policies (Continued)

Public Support and Revenues

The Corporation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit that use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. The Corporation reports temporarily restricted contributions as unrestricted support in the current year when the Corporation meets the donor restrictions in the same period.

The Corporation reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash and other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Corporation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Grants are generally recognized as income in the period that specific services are performed. However, certain grants may qualify as contributions, and accordingly, they are recognized as support when made.

Program service fees are recognized as services are performed. Loan fees on the consolidated statement of activities include fees charged for loans serviced, but not owned, by the Corporation.

Rental income is recognized in accordance with the terms set forth in the tenant leases on a monthly basis.

Donated Property

Various property, equipment and supplies are donated to the Corporation. These items are recorded as contributions at their respective estimated fair values at the date of donation.

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note A - Summary of Significant Accounting Policies (Continued)

Donated Property (Continued)

In 2016, two properties with total value of \$1,200,000 were donated to the Corporation. In 2017, three additional properties with a total appraised value of \$1,978,000 were donated to the Corporation. One of the properties, however, included a note payable to the donor totaling \$900,000. The resulting donated property revenue recognized in 2017 on the consolidated statement of activities totaled \$1,078,000. These properties are included in investment in real estate on the consolidated statement of financial position.

Donated Services

The Corporation recognizes contributions for certain services received at the fair value of those services.

Those services, which are included in public support and revenues in the accompanying consolidated statements of activities, include the following:

	<u>2017</u>	<u>2016</u>
Accounting services	\$ 19,979	\$ 13,228
Legal	29,700	36,000
Education and counseling	86,464	70,758
Rent	6,000	-
Other	1,940	-
	<u>\$ 144,083</u>	<u>\$ 119,986</u>

Description of Program Services and Supporting Activities

The following program services and supporting activities are included in the accompanying consolidated financial statements.

Program – Includes those expenditures that enable the Corporation to operate its programs:

Housing – The Corporation assists low to moderate income families and individuals to address credit and other barriers to purchasing or refinancing a home through credit building products and services, budgeting, financial education, loan counseling, and homebuyer education.

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note A - Summary of Significant Accounting Policies (Continued)

Description of Program Services and Supporting Activities (Continued)

Economic Development – Counselors provide training, technical assistance and lending to micro-enterprises. As a U.S. Small Business Administration (“SBA”) Micro-Loan Intermediary, Justine PETERSEN borrows money directly from the SBA and originates micro-enterprise loans under \$50,000 per loan in accordance with its own underwriting guidelines to small business owners that may not be able to secure capital elsewhere. GRCC is a U.S. Department of Treasury certified Community Development Financial Institution. One of GRCC’s loan products is the Emerging Markets Loan Fund. The mission of the Emerging Markets Loan Fund is to provide access to safe, affordable, capital to small businesses overlooked by mainstream financial institutions. This loan pool is funded by local investors and the CDFI Fund.

Savings – Counselors coach individuals on how to take control of the financial future, build a strong credit profile and save on interest rates and financing fees.

Admin – Includes the functions necessary to maintain an equitable employment program, ensure an adequate working environment, provide coordination and articulation of the Corporation’s program strategy, secure proper administrative functioning of the Board, and manage the financial and budgetary responsibility of the Corporation.

Fundraising – Provides the structure necessary to encourage and secure private financial support from corporations, foundations and individuals.

Functional Expense Allocation

The costs associated with providing activities have been summarized on a functional basis. Certain of these expenses represent costs associated with multiple activities and require allocation among the program and supporting services benefited. Such allocation are based on relevant factors that represent management’s best estimate of the costs of providing such activities.

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note A - Summary of Significant Accounting Policies (Continued)

Income Taxes

Justine PETERSEN and GRCT are not-for-profit organizations and are exempt from Federal and Missouri income taxes under Section 501(a) of the Internal Revenue Code as an organization described under Section 501(c)(3).

GRCC is a for-profit corporation and files a corporate income tax return. TFHD is an Illinois not-for-profit corporation and files a corporate income tax return. TFH is an Illinois limited partnership and files a partnership tax return. JPEM is a Colorado limited liability company and files a partnership tax return. GR LLC is a limited liability company, wholly-owned by Justine PETERSEN, and is a disregarded entity for tax purposes. Its activity is reported on the Justine PETERSEN informational return.

GRCC accounts for income taxes using the asset and liability approach. The asset and liability approach requires the recognition of deferred tax assets and liabilities for expected future tax benefits and consequences of temporary differences between the carrying amounts and the tax basis of the assets and liabilities. Valuation allowances are established, if necessary, to reduce a deferred tax asset to an amount more likely than not to be realized.

Management believes there are no uncertain tax positions as of December 31, 2017 and 2016. The Corporation's tax returns are subject to examination by the respective taxing authorities, generally for three years after they were filed.

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note B - Restricted Funds

Restricted funds consists of the following:

	<u>2017</u>	<u>2016</u>
Note receivable cash reserves		
Micro lending reserves	\$ 721,766	\$ 1,925,341
CA pilot program	25,584	18,770
SBA required loan loss reserves	1,014,817	882,070
	<u>1,762,167</u>	<u>2,826,181</u>
Client repair funds	305,352	180,203
Escrow deposits	182,975	150,060
Tenant security deposits	12,715	11,415
Other reserves	291,118	325,505
	<u>\$ 2,554,327</u>	<u>\$ 3,493,364</u>

Certain programs, including the SBA and CA pilot program, require the Corporation to maintain a prescribed minimum loan loss reserve fund in a segregated cash account. As of December 31, 2017 and 2016, the Corporation is in compliance with these requirements.

Note C - Notes Receivable

The Corporation has notes receivable agreements with low to moderate income individuals and small businesses. The maturity dates on the notes range from one to ten year terms and interest is charged at various rates, ranging from 0% to 23%. The notes are normally secured by the assets of the owner or borrower. Interest income on notes receivable was \$1,703,971 and \$1,621,044 for the years ended December 31, 2017 and 2016, respectively.

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note C - Notes Receivable (Continued)

Notes receivable consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Business loans		
Small business administration	\$ 3,895,124	\$ 3,265,282
CDFI	823,628	1,049,693
Micro-enterprise	13,029,533	12,669,472
Subtotal	<u>17,748,285</u>	16,984,447
Mortgage loans	369,021	239,524
Other loans	727,311	724,926
Total	<u>18,844,617</u>	17,948,897
Less: Discount on purchased note	234,035	234,035
Less: Allowance for loan losses	<u>1,381,586</u>	1,031,586
	<u>\$17,228,996</u>	<u>\$16,683,276</u>

The above are presented in the consolidated statements of financial position as follows:

	<u>2017</u>	<u>2016</u>
Notes receivable, net – current portion	\$ 6,074,630	\$ 3,452,095
Notes receivable, net – long-term portion	<u>11,154,366</u>	<u>13,231,181</u>
	<u>\$17,228,996</u>	<u>\$16,683,276</u>

Changes in the allowance for loan losses are as follows:

	<u>Year Ended December 31, 2017</u>				2016
	<u>Business</u>	<u>Mortgage</u>	<u>Other</u>	<u>Total</u>	<u>Totals</u>
Balance, beginning	\$ 969,626	\$ 664	\$ 61,296	\$ 1,031,586	\$ 599,478
Provision for loan losses	1,566,257	841	317,788	1,884,886	2,506,691
Increase to allowance	350,000	-	-	350,000	-
Recoveries	100,846	33	1,991	102,870	108,731
Loans charged off	<u>(1,693,592)</u>	<u>(1,147)</u>	<u>(293,017)</u>	<u>(1,987,756)</u>	<u>(2,183,314)</u>
Balance, ending	<u>\$ 1,293,137</u>	<u>\$ 391</u>	<u>\$ 88,058</u>	<u>\$ 1,381,586</u>	
Totals 2016	<u>\$ 969,626</u>	<u>\$ 664</u>	<u>\$ 61,296</u>		<u>\$ 1,031,586</u>

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note C - Notes Receivable (Continued)

In addition to the allowance for loan losses, the Corporation maintains required cash reserves of \$1,762,167 and \$2,826,181 as of December 31, 2017 and 2016, respectively, (Note B) to cover loan losses.

The following table provides aging information on the Corporation's past due and accruing loans, in addition to the balances of loans on nonaccrual status, at December 31, 2017 and 2016.

	December 31, 2017				Total	2016 Totals
	Current	30-89 Days Past Due	90 Days Past Due and still Accruing	Non- Accrual		
Business loans	\$14,722,043	\$ 1,347,955	\$ 1,005,932	\$ 624,557	\$17,700,487	\$16,984,447
Mortgage loans	308,505	57,612	2,904	-	369,021	239,524
Other loans	544,291	73,783	109,236	47,799	775,109	724,926
Totals 2017	<u>\$15,574,839</u>	<u>\$ 1,479,350</u>	<u>\$ 1,118,072</u>	<u>\$ 672,356</u>	<u>\$18,844,617</u>	
Totals 2016	<u>\$15,752,960</u>	<u>\$ 999,727</u>	<u>\$ 874,489</u>	<u>\$ 321,721</u>		<u>\$17,948,897</u>

A loan is considered impaired when, based on currently available information, it is probable that the Corporation will not collect all of the principal and interest contractually required by the loan agreement. Impaired loans include loans placed on nonaccrual status. All impaired loans are evaluated for an asset-specific allowance for credit losses. An allowance for credit losses on impaired loans is recognized when the recorded investment in the loan exceeds the estimated cash flows expected to be received from the borrower, discounted using the original effective interest rate of the loan.

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note C - Notes Receivable (Continued)

The following table provides additional information about impaired (non-accrual) loans held by the Corporation at December 31, 2017 and 2016, segregated between loans for which an allowance for credit losses has been provided and loans for which no allowance has been provided:

	December 31, 2017			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized
Business loans	\$ 624,557	\$ 624,557	\$ 624,557	\$ -
Mortgage loans	-	-	-	-
Other loans	47,799	47,799	47,799	-
Totals 2017	\$ 672,356	\$ 672,356	\$ 672,356	\$ -
Totals 2016	\$ 321,721	\$ 321,721	\$ 257,780	\$ -

Impaired loans totaled \$672,356 and \$321,721 at December 31, 2017 and 2016, respectively, and are comprised of loans on non-accrual status and loans which have been restructured. The restructured loans have been extended to borrowers who are experiencing financial difficulty and who have been granted a concession. These troubled debt restructured loans totaled \$195,815 and \$318,551 at December 31, 2017 and 2016, respectively.

When the Corporation modifies a loan, management evaluates any possible impairment based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, except within the sole (remaining) source of repayment for the loan is in operation or liquidation of the collateral. In these cases, management uses the current fair value of the collateral, less selling costs, instead of discounted cash flows. If management determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized by segment or class of loan, as applicable, through an allowance estimated or a charge-off to the allowance. Segment and class status is determined by the loan's classification at origination.

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note C - Notes Receivable (Continued)

The following tables include the recorded investment and number of modifications for modified loans during the years ended December 31, 2017 and 2016. The Corporation reports the recorded investment in the loans prior to a modification and also the recorded investment in the loans after the loans were modified. There were no troubled debt restructurings within the last year where a concession has been made, that then defaulted in the current reporting period.

	December 31, 2017		
	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification
Business loans	8	\$ 193,379	\$ 193,379
Mortgage loans	-	-	-
Other loans	1	2,436	2,436
Totals 2017	9	\$ 195,815	\$ 195,815
Totals 2016	16	\$ 318,551	\$ 318,551

The following table shows the balance in the allowance for loans losses at December 31, 2017, and the related loan balance, disaggregated on the basis of impairment methodology. Loans evaluated include loans on non-accrual status, which are individually evaluated for impairment, and other loans deemed to have similar risk characteristics, which are collectively evaluated.

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note C - Notes Receivable (Continued)

	Business	Mortgage	Other	Total
December 31, 2017				
Allowance for loan losses				
Individually evaluated for impairment	\$ 624,557	\$ -	\$ 47,799	\$ 672,356
Collectively evaluated for impairment	668,580	391	40,259	709,230
	<u>\$ 1,293,137</u>	<u>\$ 391</u>	<u>\$ 88,058</u>	<u>\$ 1,381,586</u>
Loans outstanding, net of Allowance				
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -
Collectively evaluated for impairment	16,221,113	368,630	639,253	17,228,996
	<u>\$16,221,113</u>	<u>\$ 368,630</u>	<u>\$ 639,253</u>	<u>\$17,228,996</u>
December 31, 2016				
Allowance for loan losses				
Individually evaluated for impairment	\$ 224,869	\$ -	\$ 32,911	\$ 257,780
Collectively evaluated for impairment	744,757	664	28,385	773,806
	<u>\$ 969,626</u>	<u>\$ 664</u>	<u>\$ 61,296</u>	<u>\$ 1,031,586</u>
Loans outstanding, net of Allowance				
Individually evaluated for impairment	\$ 63,941	\$ -	\$ -	\$ 63,941
Collectively evaluated for impairment	15,716,845	238,860	663,630	16,619,335
	<u>\$15,780,786</u>	<u>\$ 238,860</u>	<u>\$ 663,630</u>	<u>\$16,683,276</u>

The following table provide information about the credit quality of the loan portfolio, using the Corporation's internal rating system as an indicator. The internal rating system is a series of grades reflecting management's risk assessment, based on its analysis of the borrower's financial condition.

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note C - Notes Receivable (Continued)

Credit risk grades are refreshed each quarter as they become available, at which time management analyzes the resulting scores, as well as other external statistics and factors, to track loan performance. The “average or lower risk” category consists of a range of loan grades that reflect increasing, though still acceptable risk. Movement of risk through the various grade levels in the “average or lower risk” category is monitored for early identification of credit deterioration. The “high risk” rating is attached to loans where the borrower exhibits material negative financial trends due to borrower specific or systemic conditions that if left uncorrected, threaten its capacity to meet its debt obligations. It is a transitional grade that is closely monitored for improvement or deterioration. Troubled debt restructures are included in “high risk or impaired loans” category.

	December 31, 2017			Total	2016 Totals
	Business	Mortgage	Other		
Average or lower risk	\$13,991,075	\$ 240,563	\$ 614,388	\$14,846,026	\$14,267,173
High risk or impaired loans	672,356	-	-	672,356	321,721
Restructured loans	3,084,854	128,458	112,923	3,326,235	3,360,003
Totals 2017	\$17,748,285	\$ 369,021	\$ 727,311	\$18,844,617	
Totals 2016	\$16,984,447	\$ 239,524	\$ 724,926		\$17,948,897

Note D - Property and Equipment

Property and equipment consist of the following at December 31:

	2017	2016
Land	\$ 65,000	\$ 65,000
Buildings	1,315,636	1,306,396
Equipment	79,132	79,132
Furniture and fixtures	354,823	259,412
Vehicles	31,311	31,311
	1,845,902	1,741,251
Less: Accumulated depreciation	(738,155)	(665,818)
Property and equipment, net book value	\$ 1,107,747	\$ 1,075,433

Depreciation expense was \$72,338 and \$59,736 during 2017 and 2016, respectively.

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note E - Rental Real Estate

Justine PETERSEN owns and manages rental housing to promote safe, affordable rental housing in low and moderate income areas. The houses donated are recorded at the estimated fair market value at the time of the donation. Purchased properties are recorded at cost plus costs to improve, which management believes approximates market after improvements.

Rental real estate consists of the following at December 31:

	2017	2016
Land	\$ 124,786	\$ 124,786
Buildings	6,737,786	6,483,844
	6,862,572	6,608,630
Less: Accumulated impairment losses	(234,455)	(228,894)
Less: Accumulated depreciation	(1,439,465)	(1,292,047)
Rental real estate, net book value	\$ 5,188,652	\$ 5,087,689

Depreciation expense was \$147,419 and \$258,833 during 2017 and 2016, respectively.

Note F - Investment in Real Estate

Investment in real estate includes land and homes that have been donated to Justine PETERSEN or purchased properties for renovation and sale to contribute to the quality of owner-occupied housing in low and moderate income areas. These properties have been classified as available-for-sale as the Corporation does not intend to hold them. The properties are recorded at cost and/or donated value plus improvements, which management believes approximates market value after improvements.

	2017	2016
Investment in real estate	\$ 4,850,548	\$ 2,762,120
Less: Accumulated impairment losses	(184,592)	(252,686)
Investment in real estate, net book value	\$ 4,665,956	\$ 2,509,434

Foreclosed assets, properties acquired through customer loan default, included in the above investment in real estate total \$539,766 and \$245,384 as of December 31, 2017 and 2016. They are carried at fair value, net of estimated costs to sell, not to exceed the carrying value of the loan receivable upon foreclosure.

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note G - Other assets

	<u>2017</u>	<u>2016</u>
Website and portal development	\$ 64,860	\$ 56,939
EPIC program development cost	73,098	73,098
Property development cost	37,939	37,939
IL AG program costs	93,412	-
	<u>269,309</u>	<u>167,976</u>
Less accumulated amortization	91,190	20,635
	<u>\$ 178,119</u>	<u>\$ 147,341</u>

Future amortization of other assets over the next five years:

2018	\$ 66,831
2019	33,166
2020	33,166
2021	2,029
2022	2,029

Amortization expense totaled \$70,555 and \$6,232 for the years ending December 31, 2017 and 2016, respectively.

Note H - Debt

Lines of credit with banks and long-term debt consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
<u>Justine PETERSEN</u>		
Line of credit of \$1,250,000 (initially) with a bank, due August 2018, payable in monthly interest only payments which are calculated at prime rate.	\$ 1,246,673	\$ 1,246,673
Line of credit of \$750,000 with USDA, due October 2044, monthly interest of 1% until October 2017 at which time annual principal and interest of \$31,838 commenced, secured by real and personal property.	725,500	750,000

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note H - Debt (Continued)

	<u>2017</u>	<u>2016</u>
<u>Justine PETERSEN (Continued)</u>		
Line of credit of \$100,000 with a bank, due May 2017, interest and principal payable on due date at prime rate, secured by real property.	-	99,985
Unsecured line of credit of \$1,500,000 with a bank, due August 2018, interest payments due monthly at prime rate, principal plus all accrued unpaid interest on due date.	559,120	91,016
Unsecured line of credit of \$300,000 with a bank, due October 2017, interest payments due monthly at 5.25%, principal plus all accrued unpaid interest on due date.	-	300,000
Unsecured line of credit of \$50,000 with a bank, due August 2018, interest payments due monthly at 4.25%, principal plus all accrued unpaid interest on due date.	50,000	50,000
Line of credit of \$500,000 with USDA, due October 2045, monthly interest of 1% until October 2018 at which time monthly principal and interest will be due at an amount to fully amortize the balance by the due date, secured by real and personal property.	299,023	299,023
Unsecured line of credit of \$250,000 with a bank, due November 2021, monthly interest of 4.50% until December 2016 at which time monthly principal and interest of \$5,708 commenced until the earlier of payment in full or November 2019.	121,007	73,527
Line of credit of \$100,000 with a bank, due September 2020, monthly interest of 4.00% until October 2016 at which time monthly principal and interest of \$2,260 commenced through maturity, secured by deposit accounts with lender.	70,497	100,000

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note H - Debt (Continued)

	<u>2017</u>	<u>2016</u>
<u>Justine PETERSEN (Continued)</u>		
Unsecured line of credit of \$100,000 with a bank, due October 2018, quarterly interest of 3.75% until October 2016 at which time monthly principal and interest of \$2,249 commenced through maturity.	72,484	96,103
Line of credit \$845,612 with a bank, due September 2018, interest and principal payable on due date at prime rate plus .50%, secured by personal property.	845,612	800,635
Line of credit of \$250,000 with a bank, due July 2020, monthly interest of 3.25% until August 2016 at which time monthly principal and interest of \$5,539 commenced through maturity; secured by real and personal property.	28,109	96,677
Unsecured notes payable to a foundation, due March 2017 payable in quarterly interest only payments which are calculated at 3%.	-	300,000
Promissory note of \$865,800 with a bank, due March 2022, payable in monthly installments of \$5,670 including interest at 4.84%, secured by deed of trust and guaranteed by Justine PETERSEN.	693,818	726,787
Promissory note of \$500,000 with a community development company, due March 2022, payable in interest and principal on due date, interest at 3.75%, secured by notes receivable.	439,370	455,951
Promissory note of \$1,000,000 with a community development company, due July 2019, payable in interest and principal on due date, interest at 3.894%, secured by notes receivable.	378,610	683,642
Two unsecured promissory notes of \$20,000 each with an individual, principal and interest due April 2018, interest at 0%.	40,000	40,000

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note H - Debt (Continued)

	<u>2017</u>	<u>2016</u>
<u>Justine PETERSEN (Continued)</u>		
Unsecured promissory note of \$25,000 with an individual, principal and interest due April 2018, interest at 2%.	25,333	25,000
Two unsecured promissory notes of \$20,000 each with an individual, principal and interest due September 2018 and October 2019, respectively, interest at 3%.	43,518	42,248
Unsecured promissory note of \$15,000 with an individual, principal and interest due September 2019, interest at 3%.	15,581	15,128
Unsecured promissory note of \$10,000 with an individual, principal and interest due November 2021, interest at 0%.	10,000	10,000
Unsecured promissory note of \$150,000 with a bank, due August 2017, payable in monthly installments of \$3,425, including interest at 4.5%.	-	26,782
Unsecured promissory note of \$250,000 with a bank, due December 2018, payable in monthly installments of \$4,497, including interest at 3%.	53,244	104,637
SBA notes payable, secured by notes receivable, at the following rates and payments, as adjusted, according to the terms of the note. (a)		
Interest at 3.00%, due July 2016, payable in monthly payments of \$4,747 including interest.	-	(2,039)
Interest at 3%, due August 2017, payable in monthly payments of \$6,330 including interest.	-	50,438
Interest at 0.875%, due December 2018, payable in monthly payments of \$5,019 including interest.	61,907	121,037

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note H - Debt (Continued)

	<u>2017</u>	<u>2016</u>
<u>Justine PETERSEN (Continued)</u>		
Interest at 0%, due February 2021, payable in monthly payments of \$2,510 including interest.	95,300	125,420
Interest at 0.625% until July 2014 then became 0%, due July 2021, payable in monthly payments of \$6,945 including interest.	301,117	384,446
Interest at 1%, due June 2022, payable in monthly payments of \$4,630 including interest.	249,992	305,546
Interest at 0%, due May 2023, payable in monthly payments of \$11,574.	752,315	891,204
Interest at 0%, due December 2022, payable in monthly payments of \$3,496.	211,166	253,106
Interest at 0%, due July 2025, payable in monthly payments of \$11,574.	1,063,084	1,203,271
Interest at 0%, due November 2026, payable in monthly payments of \$11,574.	1,238,426	1,250,000
(a) Payments on SBA loans adjust according to the terms and conditions of each note.		
Note payable with interest at 4.25%, due December 2019, payable in monthly payments of \$205 beginning November 2016, secured by real and personal property.	31,940	32,178
Note payable with interest at 4.25%, due December 2019, payable in monthly payments of \$224 beginning November 2016 secured by real and personal property.	34,844	35,171

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note H - Debt (Continued)

	<u>2017</u>	<u>2016</u>
<u>Justine PETERSEN (Continued)</u>		
Note payable with interest at 4.25%, due June 2019, payable in monthly payments of \$351 beginning June 2016, secured by real and personal property.	42,990	45,273
Unsecured promissory note with interest at 5%, due November 2019, monthly interest only payments beginning November 2016.	875,000	991,801
Promissory note of \$250,000 with interest at 4%, due November, 2020, payable in monthly payments of \$5,651 beginning December, 2016. Secured by blanket lien on business assets.	181,237	245,183
Note payable with interest at 4.25%, due January 2020, payable in monthly payments of \$290 beginning December 2016, secured by real and personal property.	45,146	46,500
Note payable with interest at 4.25%, due January 2020, payable in monthly payments of \$351 beginning December 2016, secured by real and personal property.	54,700	56,300
Note payable with interest at 4.25%, due January 2020, payable in monthly payments of \$169 beginning December 2016, secured by real and personal property.	21,415	22,400
Note payable with interest at 4.25%, due October 2019, payable in monthly payments of \$872 beginning November 2016, secured by real and personal property.	134,735	138,918
Unsecured promissory note with interest at 3%, due January 2021, monthly interest only payments beginning April 2016 and principal payment due at maturity.	300,000	300,000
Promissory note with interest at 4%, due April 2018, quarterly interest only payments beginning April 2016 and principal payment due at maturity, secured by real and personal property.	44,754	124,435

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note H - Debt (Continued)

	<u>2017</u>	<u>2016</u>
<u>Justine PETERSEN (Continued)</u>		
Promissory note with interest at 3%, due February 2021, monthly interest only payments beginning February 2016, secured by real and personal property.	125,770	121,701
Unsecured promissory note of \$500,000 with a bank, due May 2024, quarterly interest at 3% until May 2022 at which time \$100,000 principal is due, another \$100,000 due May 2023, then the remainder due at maturity. In 2016 and 2017, certain loan covenant requirements were not met. Lender temporarily waived compliance with covenant through June 30, 2018. Consequently, this debt has been classified as current as of December 31, 2017 and 2016.	500,000	500,000
Unsecured promissory note of \$75,000 with a bank, due April 2019, monthly interest and principal payments of \$1,383, interest at 4%.	20,266	36,903
Unsecured promissory note of \$300,000 with a bank, due November 2017, quarterly interest at 3.25% until maturity.	-	300,000
Promissory note of \$400,000 with a not-for-profit corporation, due at a date to be determined based on timing of renovation completion and disbursements, interest only payments until 2 nd full month after renovations are complete or loan fully disbursed. Then payments of principal and interest of \$3,216, interest at 5.25%, secured by 1 st mortgage lien on certain properties.	221,742	221,742
Promissory note of \$2,000,000 with a not-for-profit corporation, due March 2022, quarterly interest at 5%, secured by a promissory note which is offset by \$2,200,000 other note receivable (See Note P).	2,000,000	2,000,000
Unsecured promissory note of \$250,000 with a bank, due October 2017, monthly interest and principal payments of \$6,945, interest at 3.75%.	-	75,628

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note H - Debt (Continued)

	<u>2017</u>	<u>2016</u>
<u>Justine PETERSEN (Continued)</u>		
Unsecured promissory note of \$500,000 with a bank, due January 2019, monthly interest and principal payments of \$11,708, interest at 4.55%.	133,620	264,025
Promissory note of \$250,000 with a bank, due November 2018, payable in monthly principal and interest payments of \$7,359, interest calculated at .5% over prime, secured by real and personal property.	80,322	156,506
Unsecured promissory note of \$1,000,000 with a bank, due June 2018, quarterly interest at 3.00% until maturity.	1,000,000	1,000,000
Unsecured promissory note of \$200,000 with Madison County Community Development, due June 2020, quarterly interest at 3.00%, until maturity.	200,000	200,000
Unsecured promissory note of \$250,000 with a bank, due April 2020, payable in monthly principal and interest payments of \$4,526, interest at 3.25%.	117,625	167,187
Unsecured promissory note of \$500,000 with a bank, due April 2018, interest and principle payable at due date at 2.00%.	500,000	500,000
Vehicle loan of \$22,311 with a dealer, due July 2021, payable in monthly payments of \$310, interest at 4.98%, secured by financed vehicle.	13,323	17,043
Promissory note of \$300,000 with a bank, due June 2018, payable in monthly interest only payments at 4.75%, secured by notes receivable.	399,000	250,000
Note payable with interest at 4.25%, due January 2020, payable in monthly payments of \$169 beginning March 2017, secured by real and personal property.	38,846	-

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note H - Debt (Continued)

	<u>2017</u>	<u>2016</u>
<u>Justine PETERSEN (Continued)</u>		
Promissory note with interest at 4.5%, due April 2018, quarterly interest only payments beginning May 2017 and principal payment due at maturity, secured by real and personal property.	60,224	-
Unsecured promissory note of \$500,000 with a bank, due September 2022, payable in monthly principal and interest payments of \$9,370, interest at 4.65%.	477,676	-
Unsecured promissory note of \$150,000 with a bank, Due November 2020, monthly interest and principal payments of \$4,483, interest at 4.25%.	149,583	-
Unsecured promissory note of \$500,000 with a bank, due December 2020, monthly interest and principal payments of \$15,042, interest at 5.25%.	500,000	-
Unsecured Promissory note of \$400,000 with a community development company, due June 2027, interest and principal payable on due date, interest at 3%.	400,000	-
Promissory note of \$900,000 with a company, due December 2020, interest and principal payable on due date, interest at 8%, secured by real and personal property. (See Note A – Donated Property)	900,000	-
Unsecured promissory note of \$297,062 with a bank, due October 2017, interest payments due monthly at 5.85%, principal plus all accrued unpaid interest on due date. Refinanced in November 2017 with maturity date of November 2018.	297,062	-
Unsecured note of \$35,000 with a trust, due July 2018, interest and principal payable on due date, interest at 3%.	<u>37,610</u>	<u>37,061</u>
Total JPHRC debt	<u>\$ 19,630,236</u>	<u>\$ 18,902,198</u>

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note H - Debt (Continued)

	<u>2017</u>	<u>2016</u>
<u>GRCC</u>		
Unsecured line of credit of \$250,000 with a bank, due June 2020, monthly payments of \$4,666 including principal plus interest of 4.55%.	\$ 132,604	\$ 181,122
Line of credit of \$750,000 with a bank, due January 2019, monthly interest of 5.00% until April 2016 at which time monthly principal and interest payments of \$18,339 commenced through the maturity date; secured by a Commercial Pledge and Security Agreement.	417,808	611,297
Unsecured line of credit of \$500,000 with a bank, due June 2021, monthly interest of 4.55% until June 2016 at which time monthly principal and interest of \$9,333 commenced through maturity.	354,565	447,588
Unsecured note payable to U.S. Department of the Treasury, due May 2022, payable in quarterly interest only payments which are calculated at 1%.	500,000	500,000
Unsecured note payable to bank, due December 2017, payable in monthly principal and interest payments of \$5,927, interest at 4.25%.	-	69,533
Unsecured note payable to bank, due December 2017, payable in monthly principal and interest payments of \$8,891, interest at 4.25%.	-	104,299
Promissory note of \$3,000,000 with a company, due April 2032, quarterly interest at 1% until fully advanced then monthly interest. \$2,600,000 principal due April 2022, remaining principal due at maturity, secured by all current and future loans made from proceeds of this loan.	1,994,572	1,568,683

**JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note H - Debt (Continued)

	<u>2017</u>	<u>2016</u>
<u>GRCC (Continued)</u>		
Promissory note of \$250,000 with a bank, secured by property, due July 2018, Interest only payments beginning March, 2018 at 5.50%. Balance due on maturity date.	250,000	-
Unsecured line of credit of \$250,000 with a bank, due April 2023, monthly interest of 5.95% until April 2018 at which time monthly principal and interest of \$4,827 commence through maturity.	149,533	-
Note payable to bank, due December 2021, quarterly interest payments at 3% beginning March 2017, then quarterly principal and interest payments of \$16,672 beginning March 31, 2018. Secured by real and personal property.	<u>250,275</u>	<u>250,275</u>
	4,049,357	3,732,797
Less deferred financing costs	<u>131,075</u>	<u>161,323</u>
Total GRCC debt	<u>\$ 3,918,282</u>	<u>\$ 3,571,474</u>
<u>TFH</u>		
Promissory note of \$400,000 with Madison County Community Development, due March 2030, payable only if the project has positive cash flow, interest at 1%, secured by deed of trust.	400,000	400,000
Promissory note of \$670,000 with Illinois Housing Development Authority ("IHDA"), due April 2031, payable in monthly installments of \$1,767 including interest at 1%, secured by deed of trust (See Note N).	<u>568,797</u>	<u>585,505</u>
	968,797	985,505
Less deferred financing costs	<u>15,750</u>	<u>17,500</u>
Total TFH Debt	<u>\$ 953,047</u>	<u>\$ 968,005</u>

**JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note H - Debt (Continued)

	<u>2017</u>	<u>2016</u>
Total Debt	\$24,648,390	\$23,620,500
Less: Deferred financing fees	146,825	178,823
Less: Current maturities	<u>8,530,729</u>	<u>6,104,364</u>
Long-term debt	<u>\$15,970,836</u>	<u>\$17,337,313</u>

Maturities of long-term debt over the next five years and thereafter are as follows:

2018	\$ 8,530,729
2019	3,070,890
2020	2,554,426
2021	1,373,781
2022	3,827,434
Thereafter	<u>5,291,130</u>
	<u>\$24,648,390</u>

Note I - Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following:

	<u>2017</u>	<u>2016</u>
Purpose restricted	\$ 478,876	\$ 491,197
Time restricted	-	-
	<u>\$ 478,876</u>	<u>\$ 491,197</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	<u>2017</u>	<u>2016</u>
Purpose restricted	\$ 1,212,035	\$ 245,803
Time restricted	-	-
	<u>\$ 1,212,035</u>	<u>\$ 245,803</u>

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note J - Grants and Contributions

Grants and contributions consist of the following:

Grants	2017	2016
Federal (includes direct and passed through other agencies)		
U.S. Department of Housing and Urban Development (Section 8)	\$ 14,297	\$ -
U.S. Department of Housing and Urban Development (HOME)	426,776	281,137
U.S. Department of Housing and Urban Development (CDBG)	152,083	143,240
Small Business Administration – Microloan Program	832,223	813,643
Small Business Administration – PRIME	151,827	157,193
U.S. Department of the Treasury (NFMC Grant)	2,506	22,492
U.S. Department of the Treasury (Hardest Hit Fund)	35,850	9,500
Federal grants	<u>1,615,562</u>	<u>1,427,205</u>
State and local	<u>346,562</u>	<u>339,984</u>
	<u>1,962,124</u>	<u>1,767,189</u>
Contributions	<u>2,090,876</u>	<u>1,308,470</u>
Total Grants and Contributions	<u>\$ 4,053,000</u>	<u>\$ 3,075,659</u>

HCAP – Housing Counseling Assistance Program
HOME – Home Investment Partnership Program
CDBG – Community Development Block Grant
NFMC – National Foreclosure Mitigation Counseling

Note K - Income Taxes

Income tax expense (benefit) consists of the following at December 31:

	2017	2016
Current		
U.S. Federal	\$ 89,768	\$ 113,161
State and local	18,139	21,986
	<u>107,907</u>	<u>135,147</u>
Deferred tax provision	<u>(148,000)</u>	<u>(89,000)</u>
	<u>\$ (40,093)</u>	<u>\$ 46,147</u>

Income tax expense (benefit) is presented on the consolidated statement of activities under program expense - economic development.

The difference between income tax expense (benefit) and the amount computed by applying the statutory tax rate to income before income taxes for GRCC relates primarily to the differences in the graduated rates.

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note K - Income Taxes (Continued)

Deferred tax assets and liabilities, which are reported in the accompanying consolidated statements of financial position, consist of the following:

	<u>2017</u>	<u>2016</u>
Deferred tax assets (liabilities):		
Allowance for doubtful accounts and loan losses	\$ 105,000	\$ 133,000
Depreciation	-	(3,000)
Basis reduction in loans receivable related to CDFI grant	(197,000)	(370,000)
	<u>\$ (92,000)</u>	<u>\$ (240,000)</u>

Note L - Lease Commitments

The Corporation leases certain office space and equipment under various operating lease agreements. The leases are non-cancelable and expire on various dates through 2020.

At December 31, 2017, future minimum lease payments under these non-cancelable operating leases are as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 35,869
2019	23,948
2020	21,326
2021	6,093
2022	2,456

Rent expense under operating leases was \$80,749 and \$67,540 for the years ended December 31, 2017 and 2016, respectively.

Note M - Related Party Transactions

The Corporation has issued several SBA and micro-enterprise loans to companies that are partially or wholly-owned by various related parties. Total outstanding SBA loan balances were \$23,840 and \$22,484 and total outstanding micro-enterprise loan and other loan balances were \$279,470 and \$276,643 at December 31, 2017 and 2016, respectively.

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note N - Contingencies

Certain revenues received by the Corporation are subject to compliance audits by appropriate government authorities. The findings of these audits could result in additional liabilities to the Corporation. However, management believe that the Corporation has complied with the provisions of each contract and the effect of such findings, if any, would not have a material impact on the consolidated financial statements.

The Corporation, from time to time, is involved in litigation in the ordinary course of business. The Corporation is not party to any lawsuit or proceeding which, in the opinion of management, is individually or in the aggregate, likely to have a material adverse effect on the consolidated statement of financial position.

Twenty First Homes

In January 2011, TFH finalized construction of 20 low income single family homes in Granite City, Illinois. Pursuant to several contractual agreements with federal and state agencies, TFH recognized \$3,865,965 of grant revenues from the U.S. Treasury under Internal Revenue Code ("IRC") section 1602 under the Tax Credit Exchange Program ("TCEP"). These funds were used to pay off the bridge loans used to construct the facilities. In addition, TFH was eligible to receive \$670,000 in loans from the Illinois Housing Development Authority ("IHDA"). The contractual provisions associated with this project include ongoing compliance for 15 years for the federal funding and 20 years for the state funding.

TFH must follow provisions required by federal and state laws related to tenant eligibility, maximum rental rates allowed, and habitability standards. Projects not meeting the requirements each year are subject to having their TCEP funds "recaptured", that is, repaid to the federal government for material non-compliance. As December 31, 2017, TFH is in compliance with the provisions.

Loan Guarantee

On November 15, 2013, Justine PETERSEN executed a commercial guaranty for Northwest Acquisition LLC. The loan was in the amount of \$65,000. The balance at December 31, 2017 and 2016 was \$0 and \$56,250, respectively. Justine PETERSEN was released from this guaranty in July 2017.

On April 17, 2015, Justine PETERSEN executed a commercial guaranty for Tape 4 LLC. The loan was in the amount of \$300,000. The balance at December 31, 2017 and 2016 was \$211,826 and \$282,403, respectively.

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note O - Fair Value Measurements

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, Fair Value Measurements and Disclosures, provide the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017 and 2016.

Impaired long lived assets: The estimated fair value is determined by independent market based appraisals and other available market information. If the fair value of the property deteriorates subsequent to initial recognition, the Corporation recorded the properties as a nonrecurring Level 3 adjustment.

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note O - Fair Value Measurements (Continued)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Corporation's assets that were accounted for or disclosed at fair value on a nonrecurring basis as of December 31, 2017 and 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
December 31, 2017				
Asset				
Long lived assets held and used (rental real estate)	\$ -	\$ -	\$ -	\$ -
Long lived assets held for sale (investments in real estate)	-	-	192,474	192,474
Balance, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 192,474</u>	<u>\$ 192,474</u>
December 31, 2016				
Asset				
Long lived assets held and used (rental real estate)	\$ -	\$ -	\$ 4,400	\$ 4,400
Long lived assets held for sale (investments in real estate)	-	-	388,800	388,800
Balance, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 393,200</u>	<u>\$ 393,200</u>

Long lived assets held and used were written down to their fair value resulting in an impairment charge of \$0 and \$4,408, which was included in earnings for the years ending December 31, 2017 and 2016, respectively.

Long lived assets held for sale were written down to their fair value resulting in an impairment charge of \$184,592 and \$215,656, which was included in earnings for the years ending December 31, 2017 and 2016, respectively. Several properties which had previous recognized impairment losses sold in 2017 for a combined loss of \$102,213.

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note P - Other Note Receivable and Sale of Notes Receivable

Other note receivable represents a \$2,200,000 promissory note receivable dated April 14, 2014 between Justine PETERSEN and an unrelated third party investment fund. The promissory note agreement requires quarterly interest payments, at an annual interest rate of 5%, through April 15, 2020, and quarterly payments of principal and interest thereafter through the maturity date of April 11, 2022.

The promissory note was entered into as part of a new market tax credit transaction whereby Justine PETERSEN borrowed \$2,000,000 from an unrelated not-for-profit corporation (See Note H) to provide the funds to lend under the terms of the promissory note. The proceeds from the promissory note agreement were used by the investment fund as part of its funding of an affiliate of the investment fund who, on April 14, 2014, purchased \$2,640,000 of outstanding notes receivable from GRCC. The purchase of GRCC's notes receivable was recorded as a sale by GRCC. There was no gain or loss on the sale of the notes receivable. GRCC continues to process these notes receivable under a loan servicing agreement.

Note Q - Investment in Good Life Growing

In December 2017, the Organization purchased 10% of the interest in the company, Good Life Growing, LLC, for the purchase price of \$85,000. The Good Life Growing investment as of December 31, 2017 was recorded at cost of \$88,068 including legal expenses related to the agreement execution. The agreement states that the Organization has the right, at any time, to purchase an additional 10% membership interest at the price of \$8,500 per 1% membership interest. This warrant will not terminate or expire unless and until it has been exercised in full.

To the extent Justine PETERSEN has not already exercised the option to purchase additional 10% interest in full, the Organization agrees to purchase the balance within 30 days after Good Life Growing, LLC has certified in writing that it has added 20 additional W-2 employees from and after the agreement date.

JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

December 31, 2017

(See Independent Auditor's Report)

Note R - Other Receivable

Justine PETERSEN entered into a promissory note receivable dated May 1, 2017 with an unrelated individual in the amount of \$195,000. The promissory note agreement includes a personal guarantee by the borrower.

Note S - Subsequent Events

Management has evaluated the impact on the consolidated financial statements of subsequent events through April 16, 2018, which is the date the consolidated financial statements were available to be issued.

On January 23, 2018, Justine PETERSEN entered into a \$400,000 promissory note payable with a foundation. The note requires quarterly interest payments of 3%, with principal due upon maturity, January 2023.

On February 6, 2018, Justine PETERSEN entered into a \$500,000 promissory note payable with a bank. Monthly payments of principal and interest of \$9,320 commence in March, 2018 until maturity in 2024.

On March 15, 2018, JP Emerging Markets Fund I, LLC entered into an agreement to issue and sell 250 Class MO and 250 Class IL of its membership units for \$1,000 per unit to First Bank. The Company received funds totaling \$500,000 for the associated membership units. These non-manager units have no voting rights.

In 2018, Great Rivers Community Capital, Inc. has been awarded a \$1,000,000 grant from the Community Development Financial Institutions Fund (the CDFI), a wholly owned government corporation within the U. S. Department of the Treasury. The funds will be used to originate loans (within the Great Rivers Community Capital mission) to low and moderate income individuals and families who are unable to access safe affordable capital any place else.

Supplementary Information

**JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION
AND SUBSIDIARIES**

Consolidating Statements of Financial Position

December 31, 2017 (with comparative totals for 2016)

(See Independent Auditor's Report)

	2017								2016	
	JPHRC	GRCC	GR LLC	GRCT	JPEM	TFH	TFHD	Eliminations	Consolidated	(Comparative Totals Only)
ASSETS										
Current Assets										
Cash	\$ 24,955	\$ 481,064	\$ -	\$ 16,188	\$ -	\$ 34,365	\$ -	\$ -	\$ 556,572	\$ 1,150,010
Restricted funds	2,022,150	336,487	-	-	-	195,690	-	-	2,554,327	3,493,364
Accounts and grants receivable	560,558	-	-	-	-	9,828	-	-	570,386	592,985
Interest and fees receivable	164,113	403,376	-	-	-	-	-	-	567,489	437,364
Notes receivable, net - current position	2,113,609	3,961,021	-	-	-	-	-	-	6,074,630	3,452,095
Other receivable	198,416	-	-	-	-	-	-	-	198,416	-
Prepaid expenses and other	15,655	909	-	-	-	2,728	-	-	19,292	11,194
Prepaid income tax	-	23,774	-	-	-	-	-	-	23,774	-
Total Current Assets	5,099,456	5,206,631	-	16,188	-	242,611	-	-	10,564,886	9,137,012
Non-Current Assets										
Notes receivable, net	3,422,934	7,599,324	132,108	-	-	-	-	-	11,154,366	13,231,181
Other note receivable	2,200,000	-	-	-	-	-	-	-	2,200,000	2,200,000
Property and equipment, net	1,107,378	369	-	-	-	-	-	-	1,107,747	1,075,433
Rental real estate	1,111,025	489,875	-	-	-	3,587,752	-	-	5,188,652	5,087,689
Investment in real estate	4,219,086	446,870	-	-	-	-	-	-	4,665,956	2,509,434
Other assets	123,816	36,549	-	-	-	17,754	-	-	178,119	147,341
Due from subsidiaries	7,304,480	264,215	-	-	1,050,001	18,000	-	(8,636,696)	-	-
Investment in Good Life Growing	88,068	-	-	-	-	-	-	-	88,068	-
Investment in subsidiaries	4,418,289	-	-	-	-	-	274	(4,418,563)	-	-
TOTAL ASSETS	\$ 29,094,532	\$ 14,043,833	\$ 132,108	\$ 16,188	\$ 1,050,001	\$ 3,866,117	\$ 274	\$ (13,055,259)	\$ 35,147,794	\$ 33,388,090
LIABILITIES AND NET ASSETS										
Current Liabilities										
Current portion of long-term debt	\$ 7,918,681	\$ 596,688	\$ -	\$ -	\$ -	\$ 15,360	\$ -	\$ -	\$ 8,530,729	\$ 6,104,364
Accounts payable and accrued expenses	332,775	64,824	-	-	50,000	34,014	-	-	481,613	303,197
Interest payable	40,909	22,524	-	-	-	3,588	-	-	67,021	75,739
Income taxes payable	-	-	-	-	-	-	-	-	-	42,377
Client held funds	306,405	-	-	-	-	-	-	-	306,405	181,430
Tenant security deposits	9,520	-	-	-	-	11,525	-	-	21,045	21,955
Deferred revenue	42,911	3,185	-	-	-	-	-	-	46,096	213,350
Total Current Liabilities	8,651,201	687,221	-	-	50,000	64,487	-	-	9,452,909	6,942,412
Long-Term Liabilities										
Deferred income taxes	-	92,000	-	-	-	-	-	-	92,000	240,000
Long-term debt	11,711,555	3,321,594	-	-	-	937,687	-	-	15,970,836	17,337,313
Due to subsidiaries	100,001	8,160,333	264,215	-	-	112,147	-	(8,636,696)	-	-
Total Long-Term Liabilities	11,811,556	11,573,927	264,215	-	-	1,049,834	-	(8,636,696)	16,062,836	17,577,313
Total Liabilities	20,462,757	12,261,148	264,215	-	50,000	1,114,321	-	(8,636,696)	25,515,745	24,519,725
Net Assets										
Unrestricted										
Undesignated	8,152,899	-	-	16,188	-	-	274	(16,188)	8,153,173	7,377,168
Noncontrolling interest	-	-	-	-	-	-	-	1,000,000	1,000,000	1,000,000
Temporarily restricted	478,876	-	-	-	-	-	-	-	478,876	491,197
Members' capital	-	-	-	-	1,000,001	-	-	(1,000,001)	-	-
Common stock	-	10,000	-	-	-	-	-	(10,000)	-	-
Paid-in capital and partner capital	-	671,560	-	-	-	-	-	(671,560)	-	-
Equity	-	1,101,125	(132,107)	-	-	2,751,796	-	(3,720,814)	-	-
Total Net Assets	8,631,775	1,782,685	(132,107)	16,188	1,000,001	2,751,796	274	(4,418,563)	9,632,049	8,868,365
Total Liabilities and Net Assets	\$ 29,094,532	\$ 14,043,833	\$ 132,108	\$ 16,188	\$ 1,050,001	\$ 3,866,117	\$ 274	\$ (13,055,259)	\$ 35,147,794	\$ 33,388,090

**JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION
AND SUBSIDIARIES**

Consolidating Statements of Activities

For the year ended December 31, 2017 (with comparative totals for 2016)

(See Independent Auditor's Report)

	2017							2016		
	JPHRC	GRCC	GR LLC	GRCT	JPEM	TFH	TFHD	Eliminations	Consolidated	(Comparative Totals Only)
Public Support and Revenues										
Contributions and grants	\$ 4,053,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,053,000	\$ 3,075,659
Donated services	144,083	-	-	-	-	-	-	-	144,083	119,986
Donated property	1,078,000	-	-	-	-	-	-	-	1,078,000	1,200,000
Program service fees										
Real estate brokerage income	15,317	-	-	-	-	-	-	-	15,317	27,142
Loan and administrative fees	448,775	434,867	-	-	-	-	-	(63,678)	819,964	793,786
Credit reporting fees	11,922	-	-	-	-	-	-	-	11,922	13,171
Developer's fees	100,825	-	-	-	-	-	-	-	100,825	142,456
Rental income	156,297	27,601	-	-	-	133,493	-	-	317,391	334,290
Miscellaneous	204,866	143,773	-	-	-	3,504	-	(143,489)	208,654	195,001
Interest	572,903	1,144,043	-	-	50,000	1,189	-	(64,164)	1,703,971	1,671,044
Equity in earnings of subsidiaries	(92,514)	-	-	-	-	-	(15)	92,529	-	-
Total Public Support and Revenues	6,693,474	1,750,284	-	-	50,000	138,186	(15)	(178,802)	\$ 8,453,127	\$ 7,572,535
Expenses										
Program Services:										
Housing	1,015,273	37,938	-	-	-	282,894	-	(61,955)	1,274,150	1,211,829
Economic development	4,281,490	1,620,798	-	22	50,000	-	-	(209,376)	5,742,934	5,100,828
Savings	413,922	27,544	-	-	-	-	-	-	441,466	331,642
Total Program Services	5,710,685	1,686,280	-	22	50,000	282,894	-	(271,331)	7,458,550	6,644,299
Supporting Activities:										
Management and general	153,401	6,094	-	-	-	3,100	-	-	162,595	143,370
Fundraising	65,689	2,609	-	-	-	-	-	-	68,298	62,186
Total Supporting Activities	219,090	8,703	-	-	-	3,100	-	-	230,893	205,556
Total Expenses	5,929,775	1,694,983	-	22	50,000	285,994	-	(271,331)	7,689,443	6,849,855
CHANGES IN NET ASSETS	763,699	55,301	-	(22)	-	(147,808)	(15)	92,529	763,684	722,680
Net assets at beginning of year	7,868,076	1,355,824	(132,107)	16,210	1,000,000	2,899,604	289	(4,139,531)	8,868,365	8,145,685
Contributed capital	-	371,560	-	-	1	-	-	(371,561)	-	-
Net assets at end of year	\$ 8,631,775	\$ 1,782,685	\$ (132,107)	\$ 16,188	\$ 1,000,001	\$ 2,751,796	\$ 274	\$ (4,418,563)	\$ 9,632,049	\$ 8,868,365

**JUSTINE PETERSEN HOUSING AND REINVESTMENT CORPORATION
AND SUBSIDIARIES**

Consolidating Schedules of Expenses

For the year ended December 31, 2017 (with comparative totals for 2016)
(See Independent Auditor's Report)

	2017							2016		
	JPHRC	GRCC	GRCC LLC	GRCT	JPEM	TFH	TFHD	Eliminations	Consolidated	(Comparative Totals Only)
Salaries and wages	\$ 1,674,929	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,674,929	\$ 1,462,884
Payroll taxes	131,184	-	-	-	-	-	-	-	131,184	106,784
Employee benefits	150,269	-	-	-	-	-	-	-	150,269	127,329
Administrative fees	-	1,723	-	-	-	-	-	(1,723)	-	-
Advertising	48,814	-	-	-	-	-	-	-	48,814	7,012
Client assistance	77,830	-	-	-	-	-	-	-	77,830	101,441
Conferences and seminars	47,326	-	-	-	-	-	-	-	47,326	53,664
Credit report charges	33,500	-	-	-	-	-	-	-	33,500	40,305
Delivery and postage	29,817	-	-	-	-	-	-	-	29,817	25,227
Depreciation and amortization	94,290	46,068	-	-	-	2,534	-	-	142,892	62,720
Depreciation - rental real estate	53,111	8,935	-	-	-	139,358	-	-	201,404	262,081
Donated services	144,083	-	-	-	-	-	-	-	144,083	119,986
Dues and subscriptions	10,592	-	-	-	-	-	-	-	10,592	15,696
Equipment rental and maintenance	28,045	6,594	-	-	-	-	-	-	34,639	29,050
Impairment and subsidized programmatic real estate loss	585,496	-	-	-	-	-	-	-	585,496	481,853
Income tax expense (benefit)	-	(40,093)	-	-	-	-	-	-	(40,093)	46,147
Insurance	23,594	4,261	-	-	-	5,455	-	-	33,310	58,031
Interest	645,123	204,319	-	-	50,000	7,523	-	(64,164)	842,801	680,320
Miscellaneous	1,309	3,288	-	-	-	-	-	-	4,597	22,011
Occupancy	103,125	-	-	-	-	-	-	-	103,125	86,581
Office supplies	77,009	23,271	-	22	-	329	-	-	100,631	84,318
Professional fees	711,274	46,112	-	-	-	65,056	-	(61,955)	760,487	465,271
Provisions for bad debts and loan losses	1,011,140	1,367,235	-	-	-	2,773	-	(143,489)	2,237,659	2,206,689
Recording fees	-	719	-	-	-	-	-	-	719	3,680
Rental real estate maintenance	131,476	16,062	-	-	-	28,950	-	-	176,488	176,063
Repairs and maintenance	15,321	-	-	-	-	-	-	-	15,321	6,553
Taxes and licenses	7,774	6,489	-	-	-	34,016	-	-	48,279	33,189
Telephone	28,457	-	-	-	-	-	-	-	28,457	20,591
Travel and training	64,887	-	-	-	-	-	-	-	64,887	64,379
Total 2017 Expenses	\$ 5,929,775	\$ 1,694,983	\$ -	\$ 22	\$ 50,000	\$ 285,994	\$ -	\$ (271,331)	\$ 7,689,443	
Total 2016 Expense	\$ 5,343,308	\$ 1,451,124	\$ 132,107	\$ 767	\$ -	\$ 357,866	\$ -	\$ (435,317)		\$ 6,849,855