

**MICHIGAN HISTORIC PRESERVATION NETWORK
AND SUBSIDIARIES**

REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Michigan Historic Preservation Network
and Subsidiaries

We have audited the accompanying consolidated financial statements of Michigan Historic Preservation Network (a nonprofit organization) and Subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2018, 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 Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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.

Basis for Qualified Opinion

As discussed in Note 1 to the financial statements, Michigan Historic Preservation Network and Subsidiaries' historic preservation easements have not been recorded. In our opinion, accounting principles generally accepted in the United States of America require all easements to be accounted for. The effects on the financial statements of that departure from accounting principles generally accepted in the United States of America are not reasonably determinable.

Qualified Opinion

In our opinion, except for the effect of not recording the historic preservation easements, as discussed in the Basis for Qualified Opinion paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Michigan Historic Preservation Network and Subsidiaries as of December 31, 2018, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 13 to the financial statements, Michigan Historic Preservation Network and Subsidiaries adopted a policy of preparing their financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Manes Costerian PC

November 15, 2019

**MICHIGAN HISTORIC PRESERVATION NETWORK
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018**

	2018
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 1,604,330
Short-term investments	315,884
Notes receivable - current portion	142,113
Inventory	7,307
Total current assets	2,069,634
PROPERTY AND EQUIPMENT:	
Equipment and furniture	18,186
Less accumulated depreciation	(16,055)
Total property and equipment	2,131
LONG-TERM ASSETS:	
Notes receivable, less current portion	107,114
Investment notes receivable, less current portion	46,793,432
MHPN Preservation Investments 1, LLC partnership investments	27,404,122
MHPN Incentive Ventures, Inc. partnership investment	1,324,375
Equity investment 313 Grand River LLC	229,135
Total long-term assets	75,858,178
TOTAL ASSETS	\$ 77,929,943
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accrued payroll liabilities	\$ 924
Notes payable - current portion	866,693
TOTAL CURRENT LIABILITIES	867,617
LONG-TERM LIABILITIES:	
Notes payable, less current portion	5,392,560
TOTAL LIABILITIES	6,260,177
NET ASSETS:	
Without donor restrictions	
Undesignated	71,060,140
Designated	461,460
With donor restrictions	148,166
TOTAL NET ASSETS	71,669,766
TOTAL LIABILITIES AND NET ASSETS	\$ 77,929,943

**MICHIGAN HISTORIC PRESERVATION NETWORK
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018**

	Without donor restrictions	With donor restrictions	Total
REVENUES:			
Conferences	\$ 35,892	\$ -	\$ 35,892
Memberships	27,540	-	27,540
Historic preservation easements	10,475	-	10,475
Grants	147,871	150,000	297,871
Fundraising	25,314	-	25,314
Seminars and workshops	9,009	-	9,009
Contributions	121,847	-	121,847
Marketplace, auction and other	37,119	-	37,119
Investment return, net	(14,289)	-	(14,289)
Board meeting	1,251	-	1,251
Interest	8,560	-	8,560
Noncash donations	29,457	-	29,457
Revenue (loss) from MHPN Preservation Investments 1, LLC	(7,279,826)	-	(7,279,826)
Revenue (loss) from MHPN Incentive Ventures, Inc.	1,289,375	-	1,289,375
Total revenues	(5,550,405)	150,000	(5,400,405)
Net assets released from restrictions	97,356	(97,356)	-
Total revenues, gains and other support	(5,453,049)	52,644	(5,400,405)
EXPENSES:			
Programs:			
Public relations, news and membership	170,409	-	170,409
Tax credit investments	118,327	-	118,327
Historic preservation easements	13,462	-	13,462
Field representative	176,722	-	176,722
Conferences	67,890	-	67,890
Workshops	96,339	-	96,339
Public policy	29,966	-	29,966
	673,115	-	673,115
Support services	89,810	-	89,810
Fundraising	40,297	-	40,297
Total expenses	803,222	-	803,222
CHANGE IN NET ASSETS	(6,256,271)	52,644	(6,203,627)
NET ASSETS, beginning of year	77,777,871	95,522	77,873,393
NET ASSETS, end of year	\$ 71,521,600	\$ 148,166	\$ 71,669,766

See notes to consolidated financial statements.

**MICHIGAN HISTORIC PRESERVATION NETWORK
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018**

Program Services

	Public relations, news and membership	Tax credit investments	Historic preservation easements	Field representative	Conferences	Workshops	Public policy	Total program services	Support services	Fundraising	Total
Accounting	\$ -	\$ 10,281	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,281	\$ 4,539	\$ -	\$ 14,820
Awards plaques	4,147	-	-	-	-	-	-	4,147	-	-	4,147
Bank charges	-	459	-	-	-	-	-	459	4,049	-	4,508
Compensation director	23,000	23,000	4,600	9,200	9,200	4,600	-	73,600	4,600	13,800	92,000
Conferences	-	-	-	265	-	-	-	265	-	-	265
Consulting	54,868	2,823	1,088	1,882	471	25,941	23,833	110,906	-	-	110,906
Contract labor	-	21,149	-	64,312	-	-	-	85,461	725	-	86,186
Depreciation	-	-	-	-	-	-	-	-	845	-	845
Dues and subscriptions	-	-	-	-	-	-	-	-	2,270	-	2,270
Employee benefits	4,991	4,989	361	6,762	725	361	-	18,189	2,483	1,086	21,758
Information technology	20	-	-	-	-	-	-	20	5,079	-	5,099
Interest expense	-	120	-	-	-	-	-	120	-	-	120
Legal	-	-	4,875	-	-	-	-	4,875	-	-	4,875
Consulting fee	-	-	-	-	-	-	-	-	100	-	100
Meals	141	-	-	250	10,894	865	-	12,150	31	-	12,181
Miscellaneous	522	-	-	1,225	2,650	2,850	1,856	9,103	2,165	20,846	32,114
Office expense	18,607	-	-	389	1,177	289	-	20,462	20,546	-	41,008
Payroll taxes	5,824	5,822	421	7,891	845	421	-	21,224	2,897	1,267	25,388
Postage	264	-	2	-	912	-	24	1,202	1,276	69	2,547
Printing	3,535	-	7	-	11,997	3	27	15,569	399	411	16,379
Rent	8,223	5,734	1,147	2,294	27,134	1,147	4,226	49,905	4,587	1,647	56,139
Repairs	-	-	-	-	-	-	-	-	5,816	-	5,816
Salary and wages	40,437	40,437	-	76,760	-	-	-	157,634	26,957	-	184,591
Speaker fees	-	-	-	-	969	100	-	1,069	-	-	1,069
Staff expense	-	-	-	-	330	50,138	-	50,468	-	-	50,468
Telephone	2,318	-	-	-	-	-	-	2,318	446	-	2,764
Travel expenses	3,512	3,513	961	5,492	586	9,624	-	23,688	-	1,171	24,859
	<u>\$ 170,409</u>	<u>\$ 118,327</u>	<u>\$ 13,462</u>	<u>\$ 176,722</u>	<u>\$ 67,890</u>	<u>\$ 96,339</u>	<u>\$ 29,966</u>	<u>\$ 673,115</u>	<u>\$ 89,810</u>	<u>\$ 40,297</u>	<u>\$ 803,222</u>

See notes to consolidated financial statements.

**MICHIGAN HISTORIC PRESERVATION NETWORK
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2018**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	
Cash flows from operating activities	
Change in net assets	<u>\$ (6,203,627)</u>
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities	
Disposal of partnership investments	6,486,252
Depreciation	845
Investment return, net	14,289
Loss on investments in partnership interests	(31,891)
Inventory	510
Accrued payroll liabilities	<u>924</u>
Total adjustments	<u>6,470,929</u>
Net cash provided by operating activities	<u>267,302</u>
Cash flows from investing activities	
Borrowings on notes receivable	(988,770)
Purchase of investments, net of sales	<u>(9,997)</u>
Net cash used by investing activities	<u>(998,767)</u>
Cash flows from financing activities	
Proceeds from long term debt	866,693
Repayment of long term debt	<u>(428,482)</u>
Net cash provided by financing activities	<u>438,211</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(293,254)
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,897,584</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 1,604,330</u></u>

**MICHIGAN HISTORIC PRESERVATION NETWORK
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The Network's consolidated financial statements have been prepared on the accrual basis of accounting. Additionally, the Partnerships owned by MHPN Preservation Investments 1, LLC are accounted for under the equity method of accounting and historic preservation easements have not been recorded.

Principles of consolidation - The accompanying consolidated financial statements include the accounts of Michigan Historic Preservation Network and its wholly owned subsidiaries MHPN Preservation Investments 1, LLC and MHPN Incentive Ventures, Inc. All material intercompany accounts and transactions have been eliminated.

Cash and cash equivalents - Short-term (i.e., maturities of 3 months or less) highly liquid investments that are readily convertible to known amounts of cash and present insignificant risk of change in value are considered cash and cash equivalents.

Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at cost in the statement of assets, liabilities, and net assets. Net investment return or loss is included in the statement of activities and consists of interest and dividend income, realized and unrealized gains and losses, less investment expenses.

Inventory - Inventory is valued at cost using the first-in/first-out (FIFO) method and consists of MHPN logo merchandise, books and expendable supplies.

Promises to give - Contributions are recognized when the donor makes a contribution. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Contributions - Contributions received are recorded as without donor restrictions or with donor restrictions net assets depending on the existence or nature of any donor restrictions.

Contributed goods and services - The Network generally pays for services requiring specific expertise. Contributed services recorded in 2018 totaled \$7,905. Many individuals also volunteer their time and perform a variety of tasks that assist the Network and its mission, but these services do not meet the criteria for recognition as contributed services. Contributed goods recorded in 2018 totaled \$21,552. Contributed goods and services are recorded at the estimated fair value determined by management.

**MICHIGAN HISTORIC PRESERVATION NETWORK
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

Property and equipment - The Network capitalizes property and equipment over \$1,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as contributions without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Property and equipment are depreciated using the straight line method over estimated useful lives ranging from 3 to 35 years

Functional allocation of expenses - The costs of providing program and other activities have been reported in the statement of activities. The statement of functional expenses present the natural classification of expenses that are allocated to program or supporting functions of the Network. Allocated expenses primarily consist of payroll and related, consulting, contract labor, staff expenses, office expenses, rent, and various other expenses classifications necessary to support the day-to-day operations of the Network. Employee driven expenses are allocated based on salary and wages analysis. All other allocated expenses utilize management's estimated use of resources.

Net assets - Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions - Net assets available for use in general operations and not subject to donor or grantor restrictions. Designated net assets totaling \$461,460 represent an easement legal defense fund maintained to provide a perpetual and dependable pool of funds for the enforcement and legal defense of the Network held conservation easements.

Net assets with donor restrictions - Net assets subject to donor (or grantor) imposed restrictions. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources are maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, or when the stipulated purpose has been accomplished (See Note 10).

**MICHIGAN HISTORIC PRESERVATION NETWORK
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 2 - NATURE OF THE ORGANIZATION, RISKS AND UNCERTAINTIES

Michigan Historic Preservation Network and Subsidiaries (the Network), a non-profit organization, is a statewide organization dedicated to recognizing and preserving Michigan's rich cultural and architectural heritage. It does this through conferences, workshops, outreach and advocacy, preservation easements, tax credit partnerships, newsletters, and public policy work.

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

The Network is required to disclose significant concentrations of credit risk regardless of the degree of such risk. Financial instruments, which potentially subject the Network to concentrations of credit risk consist principally of cash and notes receivable. The Network's cash is deposited with FDIC insured financial institutions. Although such cash balances may exceed the federally insured limits at certain times during the year they are, in the opinion of management, subject to minimal risk.

The Network evaluates events and transactions that occur after year end for potential recognition or disclosure in the consolidated financial statements. These subsequent events have been considered through November 15, 2019, which is the date the financial statements were available for issuance.

**MICHIGAN HISTORIC PRESERVATION NETWORK
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 3 - LIQUIDITY AND AVAILABILITY

The Network regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Network considers all expenditures related to its ongoing program service activities as well as the conduct of services undertaken to support those activities to be general expenditures.

The following reflects the Network's financial assets as of December 31, 2018, which are deemed available for general expenditures within one year of the date of the statement of financial position. Amounts not available include board designations set aside for partnership investments.

	2018
Cash and cash equivalents	\$ 1,604,330
Short-term investments	315,884
Notes receivable- current	142,113
Total financial assets	2,062,327
Financial assets available to meet cash needs for general expenditures within one year	\$ 2,062,327

In addition to financial assets available to meet general expenditures over the next 12 months, the Network operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. While the Network's governing board has designated a portion of its non-restricted resources as noted above, these funds remain available and may be spent at the discretion of the board.

NOTE 4 - TAX STATUS

The Network is exempt from federal income taxes under the provision of Section 501(c)(3) of the Internal Revenue Code. Contributions to Michigan Historic Preservation Network are tax deductible within the limitations prescribed by the Internal Revenue Code.

In the preparation of tax returns, tax positions are taken based on interpretation of federal, state, and local income tax laws. Management periodically reviews and evaluates the status of uncertain tax positions and makes estimates of amounts, including interest and penalties, ultimately due or owed. No amounts have been identified, or recorded, as uncertain tax positions. Federal, state, and local tax returns generally remain open for examination by the various taxing authorities for a period of 3 to 4 years.

**MICHIGAN HISTORIC PRESERVATION NETWORK
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 5 - SHORT-TERM INVESTMENTS

The cost of short-term investments totaled \$315,884 at December 31, 2018, respectively. The following schedule summarizes investment returns and their classification in the statement of activities for the year ended December 31, 2018. Short-term investments consist of mutual funds held at Edward Jones and Merrill Lynch.

	Without donor restrictions	With donor restrictions	Total
Interest/dividend income	\$ (8,869)	\$ -	\$ (8,869)
Net realized gains	(5,420)	-	(5,420)
Total investment return, net	<u>\$ (14,289)</u>	<u>\$ -</u>	<u>\$ (14,289)</u>

NOTE 6 - HISTORIC PARTNERSHIP AND CORPORATION INVESTMENTS

The Network is a 100% owner of MHPN Preservation Investments 1, LLC. This LLC is a non-controlling limited liability partner with outside independent investors in historic rehabilitation projects within Michigan. The Network acts as a nonprofit partner within the project in order to fill a financial gap within the rehabilitation project. As of December 31, 2018, the value of these investments based on the reported K-1 partnership account was as follows:

Park Place City Center LDHA, LLC	\$ 1,792,025
Woodward SA-PK, LLC	1,013,837
Eyde Knapp Manager LLC	7,521,320
NSO Bell Commercial LLC	1,554,181
KWA I Residential LLC	2,135,225
Broderick Tower Manager LLC	<u>13,387,534</u>
Total	<u>\$ 27,404,122</u>

**MICHIGAN HISTORIC PRESERVATION NETWORK
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 6 - HISTORIC PARTNERSHIP AND CORPORATION INVESTMENTS (Concluded)

The Network is a 100% owner of MHPN Incentive Ventures, Inc. The Network acts as a nonprofit partner within the project in order to fill a financial gap within the rehabilitation project. As of December 31, 2018, the value of these investments based on the reported K-1 partnership account was as follows:

Broderick Tower Note Investors LLC	<u>\$ 1,324,375</u>
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The Network has not recorded a valuation allowance against the partnership investment value or determined the fair market value. The Network does not anticipate deriving significant cash value for their non-controlling limited partnership interests and in some instances will execute disposition documents in exchange for certain historic preservation covenants.

NOTE 7 - NOTES RECEIVABLE

The notes receivable consists of loans to various projects.

The pre-development notes provide financial support to projects to rehabilitate historic buildings in Michigan. The notes accrue interest at a rate of 5% per annum and require quarterly interest-only payments until their due dates. Casa Del Ray project, Thompson Block project, and Water Street project are due in July 2019. Heckett Auto Museum, Brush Park Erskine, and Pablo's Mexican Restaurant are due in 2020.

The intervention loan program provides financial support to projects for repairs to historic buildings. The intervention loan receivable with Calhoun County Land Bank, with an interest rate of 3% per annum, requires quarterly interest and principal payments. The final payment is due in 2023.

The note receivable - 1249 Griswold project is a mortgage loan for a historic tax credit development. The loan is collateralized by a mortgage on the assets of the project and is schedule to be repaid in accordance with the related mortgage note. In the event that the underlying project related to the mortgage loan fails to repay, the Network would be subject to a loss for the amount that was lent.

**MICHIGAN HISTORIC PRESERVATION NETWORK
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 7 - NOTES RECEIVABLE (Concluded)

The notes receivable are summarized as follows at December 31, 2018:

Pre-development note receivable - Casa Del Ray project	\$ 39,110
Pre-development note receivable - Thompson Block project	50,000
Pre-development note receivable - Water Street project	50,000
Pre-development note receivable - Hackett Auto Museum	16,978
Pre-development note receivable - Brush Park Erskine	29,540
Pre-development note receivable - Pablo's Mexican Restaurant	50,000
Intervention loans receivable - Calhoun County Land Bank	<u>13,599</u>
Total notes receivable	<u><u>\$ 249,227</u></u>

The Network also has the following outstanding commitments from various historic preservation investment projects.

1145 Griswold	\$ 6,306,104
1212 Griswold	8,219,241
1249 Griswold - note 1	6,295,313
1249 Griswold - note 2	866,693
Elliott Building	838,773
Kerr Block	1,530,827
David Whitney Building	21,856,726
Wessener	<u>879,755</u>
Total investment notes receivable	<u><u>\$ 46,793,432</u></u>

**MICHIGAN HISTORIC PRESERVATION NETWORK
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 8 - NOTES PAYABLE

The Network has the following notes payable as of December 31, 2018:

Note payable - Fifth Third Bank, consists of interest-only payments until the due date of December 31, 2048. The note is collateralized by all state tax credits previously or in the future approved for MHPN 1249 Griswold SPE, LLC.	\$ 5,392,560
Note payable - Chase Invest Detroit Fund with interest at rate of 7%, consists of interest-only payments until the due date of January 15, 2019. The note is collateralized by all state tax credits previously or in the future approved for MHPN Elliott Griswold SPE, LLC.	<u>866,693</u>
Less current portion	<u>(866,693)</u>
	<u><u>\$ 5,392,560</u></u>

Annual principal requirements under the notes are approximately as follows:

Year ending December 31,		
2019	\$	866,693
2020		-
2021		-
2022		-
2023		-
Thereafter		<u>5,392,560</u>
	\$	<u><u>6,259,253</u></u>

NOTE 9 - EQUITY INVESTMENT 313 GRAND RIVER LLC

The Network has entered into an equity arrangement with additional investors to rehabilitate and occupy the premises of 313 E Cesar E Chavez Ave, Lansing, MI as corporate offices for the Network with additional space available for commercial rental. The balance of \$229,135 represents the Network's investment to obtain and maintain the property in 2018.

**MICHIGAN HISTORIC PRESERVATION NETWORK
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 10 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consists of grants and restricted donations from outside parties that are specifically restricted to use of program or personnel costs.

Net assets with donor restrictions consisted of the following as of December 31, 2018:

Grants and restricted donations	\$ <u>148,166</u>
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Net assets with donor restrictions revenue and gains and net assets released from restrictions consisted of the following for the year ended December 31, 2018:

Beginning of year, net assets with donor restrictions	\$ 95,522
Revenues and gains:	
Contributions	150,000
Net assets released from restrictions:	
Restrictions satisfied by fulfilling purpose	<u>(97,356)</u>
End of year, net assets with donor restrictions	<u>\$ 148,166</u>

NOTE 11 - OPERATING LEASE

The Network rents office space under an operating lease agreement with 313 Grand River LLC, a related party. The Network entered into a 60 month lease on March 1, 2013. Additionally, the Network receives an in-kind rent contribution of office space and parking space in Detroit under a month to month arrangement with the Farbman Group. Rental expense of \$56,139 was incurred for the year ended December 31, 2018.

Future operating lease commitments, excluding in-kind rent contribution, for the next five years are as follows:

Year ending December 31,	Commitment
2019	\$ 20,493
2020	20,898
2021	21,315
2022	21,744
2023	5,463

**MICHIGAN HISTORIC PRESERVATION NETWORK
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 12 - SUBSEQUENT EVENT

Subsequent to December 31, 2018, the Network obtained a loan payable of approximately \$4,800,000 in connection with a historic property development in Alabama.

NOTE 13 - ACCOUNTING METHOD CHANGE

During the year, the Network adopted a policy of preparing its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. As a result, certain adjustments were made to the beginning net assets balance. Below is a summary of those adjustments.

Net assets without donor restrictions, January 1, 2018	\$ 37,243,692
Change in accounting principle, modified cash basis to accrual	<u>40,534,179</u>
Revised net assets without donor restrictions, January 1, 2018	<u><u>\$ 77,777,871</u></u>

NOTE 14- NEW ACCOUNTING STANDARD

In August 2016, the FASB issued ASU No. 2016-14, “*Presentation of Financial Statement of Not-for-Profit Entities*” (Topic 958). The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. In addition, ASU 2016-14 removes the requirement that not-for-profit entities that chose to prepare the statements of cash flows using the direct method must also present a reconciliation (the indirect method). The Network adopted ASU No. 2016-14 for the year ending December 31, 2018.