DEVELOPMENT FUND OF THE WESTERN RESERVE, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016

with

Report of Independent Auditors

DEVELOPMENT FUND OF THE WESTERN RESERVE, INC. AND SUBSIDIARY

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NOVOGRADAC
& COMPANY LLP®
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors

To the Board of Directors of
Development Fund of the Western Reserve, Inc.:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Development Fund of the Western Reserve, Inc. (an Ohio non-profit corporation) and Subsidiary (collectively, the "Corporation"), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Development Fund of the Western Reserve, Inc. and Subsidiary as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in the supplemental schedules on pages 22 and 23 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual entities, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Corporation adopted Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958).* Our opinion is not modified with respect to that matter.

Novogradac & Company LLP

Cleveland, Ohio
May 15, 2018

DEVELOPMENT FUND OF THE WESTERN RESERVE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 787,159	$ 798,147
Restricted cash	82,553	660,000
Due from related parties	2,625	2,625
Grants receivable	65,000	-
Prepaid loan servicing fee	3,616	3,616
Prepaid insurance	3,752	3,199
Prepaid other expenses	1,250	-
Total current assets	945,955	1,467,587
Long-term assets		
Deferred charges, net of accumulated amortization	24,143	31,173
Investments in subsidiaries	34,138	5,784
Loan receivable	4,694,875	-
Total long-term assets	4,753,156	36,957
Total assets	$ 5,699,111	$ 1,504,544
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 3,591	$ 1,549
Deferred revenue	285,357	285,357
Deferred grant revenue	-	50,000
Restricted deposits	5,000	-
Total current liabilities	293,948	336,906
Long-term liabilities		
Deferred revenue	902,664	1,196,301
Note payable, related party	1,270,000	-
Note payable, net of unamortized debt issuance costs	1,485,504	-
Total long-term liabilities	3,658,168	1,196,301
Total liabilities	3,952,116	1,533,207
Net assets		
Net assets without donor restrictions	1,599,442	(638,663)
Net assets with donor restrictions	147,553	610,000
Total net assets	1,746,995	(28,663)
Total liabilities and net assets	$ 5,699,111	$ 1,504,544

see accompanying notes

DEVELOPMENT FUND OF THE WESTERN RESERVE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the years ended December 31, 2017 and 2016

NET ASSETS WITHOUT DONOR RESTRICTIONS	2017	2016
REVENUE		
Sub-allocation fee income	$ 293,637	$ 229,911
Interest income	46,534	-
Contributions	1,332,972	-
Asset management fees	291,250	237,395
Servicing fees	5,000	5,000
Audit and tax fee reimbursement	101,000	91,000
Other income	25,000	-
Net assets released from restrictions	610,000	-
Total revenue	2,705,393	563,306
EXPENSES		
Management services - DFA	153,346	570,156
Professional fees	143,443	110,440
General and administrative expenses	48,149	60,683
Insurance fees	5,187	6,624
Application fees	61,500	1,500
Advertising fees	1,000	2,588
Loan servicing fee	5,000	5,000
Interest expense	42,712	-
Amortization	7,030	7,030
Total expenses	467,367	764,021
Income (loss) before equity in net income of investment	2,238,026	(200,715)
Equity in net income of investments in subsidiaries	79	70
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	2,238,105	(200,645)
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	147,553	610,000
Net assets released from restrictions	(610,000)	-
(DECREASE) INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS	(462,447)	610,000
CHANGE IN NET ASSETS	1,775,658	409,355
NET ASSETS AT BEGINNING OF YEAR	(28,663)	(438,018)
NET ASSETS AT END OF YEAR	$ 1,746,995	$ (28,663)

see accompanying notes

DEVELOPMENT FUND OF THE WESTERN RESERVE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 1,775,658	$ 409,355
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Amortization of servicing fees	7,030	7,030
Interest expense - debt issuance costs	504	-
Equity in net income of subsidiaries	(79)	(70)
Changes in operating assets and liabilities:		
Increase in grants receivable	(65,000)	-
(Increase) decrease in prepaid insurance	(553)	766
Increase in prepaid other expenses	(1,250)	-
Increase (decrease) in accounts payable	2,042	(40,162)
(Decrease) increase in deferred revenue	(293,637)	667,589
(Decrease) increase in deferred grant revenue	(50,000)	50,000
Increase (decrease) in restricted deposits	5,000	(75,000)
Net cash provided by operating activities	1,379,715	1,019,508
CASH FLOWS FROM INVESTING ACTIVITIES		
Withdrawals from (deposits to) restricted cash	577,447	(660,000)
Funding of loan receivable	(4,694,875)	-
Investments in subsidiaries	(28,375)	(2,775)
Distributions from subsidiaries	100	87
Net cash used in investing activities	(4,145,703)	(662,688)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable - related party	1,270,000	-
Proceeds from note payable	1,500,000	-
Payment of debt issuance costs	(15,000)	-
Net cash provided by financing activities	2,755,000	-
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(10,988)	356,820
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	798,147	441,327
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 787,159	$ 798,147
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 42,208	$ -

see accompanying notes

1. Organization and purpose

Development Fund of the Western Reserve, Inc., an Ohio non-profit corporation ("DFWR"), was formed on May 26, 2011 to serve or provide investment capital for Low-Income Communities ("LICs"), as defined in Section 45D(e) of the Internal Revenue Code and the Treasury Regulations thereunder, or low-income persons ("Low-Income Persons"). DFWR's original members were the Development Finance Authority of Summit County ("DFA"), the Controlling Member, and ConxusNEO (formerly known as Summit Workforce Solutions). ConxusNEO withdrew from DFWR on October 10, 2017 and pursuant to the amended and restated Code of Regulations adopted on October 26, 2017, DFA is the sole member of DFWR. DFWR was certified as a qualified community development entity ("CDE") under the New Markets Tax Credit ("NMTC") Program. One hundred percent (100%) of DFWR's activities are targeted to Low-Income Persons of LICs. DFWR's service area is comprised of an eighteen county area in Northeast Ohio.

DFWR's primary mission is to serve and provide investment capital for low-income communities and low-income persons, consistent with the NMTC Program, and to serve as managing member for subsidiary CDEs.

Throughout the notes to the consolidated financial statements, italicized words or phrases represent defined terms under the NMTC or Section 45D of the Internal Revenue Code of 1986, as amended.

DFWR is an allocatee of NMTCs and has sub-allocated its NMTC allocation to various affiliates for the purpose of making *qualified low-income community investments* ("QLICIs"). As of December 31, 2017 and 2016, the following sub-allocations were made to subsidiary CDEs ("Sub-CDEs"):

Sub-CDE	2017	2016
Western Reserve DF Affiliate I, LLC ("Western Reserve I")	$ 7,000,000	$ 7,000,000
Western Reserve DF Affiliate II, LLC ("Western Reserve II")	6,500,000	6,500,000
Western Reserve DF Affiliate III, LLC ("Western Reserve III")	6,500,000	6,500,000
Western Reserve DF Affiliate IV, LLC ("Western Reserve IV")	5,000,000	5,000,000
Western Reserve DF Affiliate V, LLC ("Western Reserve V")	5,500,000	5,500,000
Western Reserve DF Affiliate VI, LLC ("Western Reserve VI")	7,500,000	7,500,000
Western Reserve DF Affiliate VII, LLC ("Western Reserve VII")	5,500,000	5,500,000
Western Reserve DF Affiliate VIII, LLC ("Western Reserve VIII")	5,000,000	5,000,000
Western Reserve DF Affiliate IX, LLC ("Western Reserve IX")	5,250,000	5,250,000
Western Reserve DF Affiliate X, LLC ("Western Reserve X")	4,500,000	4,500,000
Western Reserve DF Affiliate XI, LLC ("Western Reserve XI")	6,750,000	-
Total	$ 65,000,000	$ 58,250,000

1. Organization and purpose (continued)

In 2017, DFWR sub-allocated the remaining $6,750,000 of its 2015 NMTC allocation (see Note 9) to Western Reserve XI for purposes of creating a small-QLICI loan fund ("Small-QLICI Fund"). In conjunction with the closing of the Small-QLICI Fund, DFWR made a $1,929,875 investment in Akron Community Revitalization Fund, LLC ("ACRF" and together with DFWR, the "Corporation") for 100% ownership of ACRF and a $27,700 investment in ACRF Lender, LLC ("ACRF Lender" and together with the Sub-CDEs, the "Subsidiaries") for 0.01% ownership of ACRF Lender.

2. Summary of significant accounting policies and nature of operations

Basis of accounting
The Corporation prepares its consolidated financial statements on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

Principles of consolidation
The consolidated financial statements as of and for the year ended December 31, 2017 include the accounts of DFWR and ACRF. All material intercompany balances and transactions have been eliminated.

Basis of presentation
The Corporation is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets without Donor Restrictions: Net assets that are not subject to donor-imposed restrictions. Net assets without donor restrictions consist primarily of board designated operating funds, capital assets, and general operating support.

Net Assets with Donor Restrictions: Net assets that are subject to donor-imposed stipulations. Donor imposed stipulations specify a use for a contributed asset that is more specific than broad limits resulting from the nature of the not-for-profit entity, the environment in which it operates, or the purposes specified in its articles of incorporation or bylaws. Net assets with donor restrictions consist primarily of contributions with temporary donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

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

2. Summary of significant accounting policies and nature of operations (continued)

Cash and cash equivalents
Cash and cash equivalents include all cash balances on deposit with financial institutions and highly liquid investments with a maturity of three months or less at the date of acquisition.

Restricted cash is not considered cash and cash equivalents, and includes cash held with financial institutions restricted for use relating to the Small-QLICI Fund (see Note 1).

Concentration of credit risk
The Corporation maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Corporation has not experienced any losses in such accounts. The Corporation believes it is not exposed to any significant credit risk on these accounts.

Accounts receivable
Accounts receivable is stated at the amount management expects to collect from outstanding balances. Management closely monitors outstanding balances and provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that remain outstanding after management has used reasonable collection efforts are generally written off through a charge to the valuation allowance and a credit to trade accounts receivable. As of both December 31, 2017 and 2016, there was no allowance for doubtful accounts.

Economic concentrations
Substantially all of the Corporation's operations are derived from its long-term investments in and services provided to the Subsidiaries. Future operations could be impacted by changes in economic or other conditions that would affect the business of the Subsidiaries.

Change in accounting principle
In 2017, the Corporation adopted FASB Accounting Standards Update No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958) ("ASU 2016-14"), prior to the required effective date, as permitted by ASU 2016-14. ASU 2016-14 requires the presentation of two classes of net assets, net assets with donor restrictions and net assets without donor restrictions, rather than the currently required three classes of net assets. ASU 2016-14 requires net assets to be presented in two classes: net assets with donor restrictions and net assets without donor restrictions. The effect of the change at December 31, 2017 and 2016 is that net assets that were previously classified as unrestricted net assets are now referred to as net assets without donor restriction; and net assets that were previously classified as temporarily restricted net assets are now referred to as net assets with donor restrictions. The change does not impact change in net assets.

2. Summary of significant accounting policies and nature of operations (continued)

Change in accounting principle (continued)
In addition to the fundamental change in net asset classifications, the new standard also included disclosure requirements of qualitative information on how the Corporation manages its liquid available resources and liquidity risks (see Note 12).

Income taxes
The Corporation is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3).

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires the Corporation to report information regarding its exposure to various tax positions taken by the Corporation. Management has determined whether any tax positions have met the recognition threshold and has measured the Corporation's exposure to those tax positions. Management believes that the Corporation has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state taxing authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to the Corporation are recorded in expenses. No interest or penalties from federal or state taxing authorities were recorded in the accompanying consolidated financial statements.

Loans receivable and allowance for loan losses
Loans receivable are stated at unpaid principal balances, less allowance for loan losses and net of deferred loan origination fees and unearned discounts, as applicable.

Loan origination and commitment fees, as well as certain direct origination costs, are deferred and recognized into income ratably over the term of the loan. Amortization of deferred loan fees is discontinued when a loan is placed on non accrual status.

The allowance is increased by a provision for loan losses, which is charged to expense, and reduced by charge-offs, net of recoveries. Management's periodic evaluation of the adequacy of the allowance is based on the Corporation's past loan loss experience, known and other risks inherent in the portfolio, specific impaired loans, and adverse situations. Although management uses available information to recognize losses on loans because of uncertainties associated with local economic conditions, collateral values, and future cash flows of on the impaired loans, it is reasonably possible that a material change could occur in the allowance for loan losses in the near term. However, the amount of the change that is reasonable possible cannot be estimated.

2. Summary of significant accounting policies and nature of operations (continued)

Loan receivable and allowance for loan losses (continued)
The Corporation considers a loan impaired when based on current information or factors, it is probably that the Corporation will not collect the principal and interest payments according to the loan agreement. Management considers many factors in determining whether a loan is impaired, such as payment history and value of collateral. Loans that are contractually delinquent less than 90 days are generally not considered impaired, unless the borrower has claimed bankruptcy or the Corporation has received specific information concerning the loan impairment. The Corporation reviews delinquent loans to determine impaired accounts. The Corporation measures impairment on a loan-by-loan basis by either using the fair value of collateral or the present value of expected cash flows.

The Corporation's key credit quality indicator is a loan's performance status, defined as accruing or non-accruing. Performing loans are considered to have a lower risk of loss, while nonaccrual loans are those which the Corporation believes have a higher risk of loss. Loans that are 90 days or more past due, based on the contractual terms of the loan, are classified on nonaccrual status. Loans may also be placed on nonaccrual status when management believes, after considering economic conditions, business conditions, and collections efforts, that the loans are impaired or collection of interest is doubtful. Uncollectible 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 and the principle balance is believed to be collectible. There were no loans on non accrual status or past due at December 31, 2017.

A loan previously classified on nonaccrual status will resume accruing interest based on the contractual terms of the loan when payments on the loan become current. Loans may also resume accruing interest if management no longer believes a loan is impaired or the collection of principal and interest is no longer in doubt. As of December 31, 2017, management believes that the Corporation's loan receivable is fully collectible and as such, the allowance for loan loss is zero.

Investments in subsidiaries
The Corporation owns a 0.01% membership interest in each of the Sub-CDEs (See Note 1), whose primary mission is providing investment capital for *LICs* or *Low-Income Persons* nationally, and ACRF Lender.

2. Summary of significant accounting policies and nature of operations (continued)

Investments in subsidiaries (continued)

Financial Accounting Standards Board Accounting Standards Codification Topic 810-20, Control of Partnerships and Similar Entities, addresses how a Corporation should evaluate whether the managing member or other similar entity is presumed to control a limited liability company or other similar entity and accordingly should consolidate the entity. If the investor member has the substantive ability to dissolve the limited liability company or otherwise remove the managing member without cause or has substantive participating rights, the managing member does not control the limited liability company. Substantive participating rights provide the investor member with the ability to effectively participate in significant decisions in the Subsidiaries' ordinary course of business. The Corporation has concluded that for each of the Subsidiaries, the investor member is presumed to have substantive participating rights and that the Corporation is not required to consolidate the Subsidiaries. The Corporation's maximum exposure to loss as a result of its involvement with the investment remains limited to its capital contribution to the Subsidiaries.

The Corporation accounts for its investment in the Subsidiaries under the equity method of accounting because it serves as the managing member for each of the Subsidiaries and derives substantially all of its revenue from services provided to the Subsidiaries. Under the equity method of accounting, the investments are recorded at cost and adjusted for the Corporation's share of income or loss in the Subsidiaries, additional investments in and cash distributions from the Subsidiaries. Since the Corporation has no obligation to fund liabilities of the Subsidiaries beyond its investment, its investment in the Subsidiaries may not be reduced below zero.

To the extent that equity losses are incurred when the Corporation's carrying value of its investment in any of the Subsidiaries has reached a zero balance, any losses will be suspended to be used against future income.

The Corporation has implemented policies and practices for assessing impairment for its investments. Periodically, the carrying values are evaluated and the Corporation records a write down if it is determined that the impairment in value exists. If impairment exists, the carrying value is reduced to its fair value. Fair value is determined based on future cash flows and estimated tax benefits to be received. There were no impairment losses recognized for the years ended December 31, 2017 and 2016.

Deferred charges and amortization

Deferred charges as of both December 31, 2017 and 2016 consist of servicing fees paid to the State of Ohio Development Services Agency in an aggregate amount of $52,500. These fees are recorded at cost and amortized ratably over the applicable NMTC compliance period using the straight-line method. Accumulated amortization as of December 31, 2017 and 2016 was $28,357 and $21,327, respectively.

2. Summary of significant accounting policies and nature of operations (continued)

Contributions
Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. 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.

Unconditional pledges to give are recorded as contributions when pledged at the net present value of the amounts expected to be collected. Unconditional pledges to give that are expected to be received in future periods are discounted annually using the current interest rate the funds would earn. Amortization of the discount is recorded as contribution revenue.

Revenue recognition
Revenue derived from the sub-allocation and transaction fees related to the closing of transactions by the Corporation's Subsidiaries is deferred and recognized into income ratably over the NMTC compliance period of seven years. Asset management fees, servicing fees and compliance income are recognized when earned in accordance with the contractual terms of the loan agreements and promissory notes. Interest income is recognized when earned in accordance with the contractual terms of the loan agreements and promissory notes. Advance interest payments are deferred and classified as liabilities until earned.

Prepaid loan servicing fee
Prepaid loan servicing fees are paid in annual installments in advance to Finance Fund Management, LLC ("FFM").

Functional allocation of expenses
Expenses that can be identified with a specific program or supporting service are charged directly to the related program or supporting service. The activities of the Corporation relate solely to serving and providing investment capital for LICs and low-income persons, consistent with the NMTC Program. As a result, all revenues and expenses of the Corporation are for program services.

Reclassifications
Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. The categories of net assets have been updated to reflect the classification of net assets per ASU 2016-14. There is no effect on total net assets as a result of this reclassification.

3. Loan receivable – Twain Investment Fund 240, LLC

On July 27, 2017, ACRF entered into a loan agreement with Twain Investment Fund 240, LLC ("Twain") for the amount of $4,694,875 (the "Leverage Loan"). Pursuant to the loan agreement, interest accrues at a fixed rate of 2.3089% per annum. The Leverage Loan is secured by the 99.99% interest Twain holds in Western Reserve XI.

Interest-only payments are due on the 10^{th} day of the last month of each calendar quarter, commencing on September 10, 2017 through June 10, 2027. Commencing on September 10, 2027, quarterly payments of principal and interest are due in an amount sufficient to amortize the outstanding principal balance of the Twain Loan by the maturity date of July 31, 2047. As of December 31, 2017, the principal balance outstanding was $4,694,875. For the year ended December 31, 2017, interest earned and received was $46,371, and there was no interest receivable as of December 31, 2017.

4. Note payable

ADF Loan

On July 26, 2017, ACRF entered into a loan agreement with Akron Development Fund I, Ltd. ("ADF") for the amount of $1,500,000 (the "ADF Loan"). Pursuant to the loan agreement, interest accrues at a fixed rate of 2.75% per annum. The loan is secured by the Leverage Loan and related documents.

Interest-only payments are due on the last day of the last month of each calendar quarter, commencing on September 30, 2017, through and including June 30, 2027. On the maturity date of July 31, 2027, the entire principal balance and any accrued interest is due. As of December 31, 2017, the outstanding principal balance of the ADF Loan was $1,500,000. For the year ended December 31, 2017, interest incurred and paid on the ADF Loan was $17,760.

Debt issuance costs of $15,000 are being amortized to interest expense over the term of the ADF Loan. For the year ended December 31, 2017, the effective interest rate on the ADF Loan, including amortization of debt issuance costs, was 2.77%. For the year ended December 31, 2017, amortization of debt issuance costs was $504 and was recorded as interest expense in the accompanying consolidated statements of activities and changes in net assets.

Note payable consists of the following as of December 31, 2017:

Principal balance	$ 1,500,000
Less: unamortized debt issuance costs	14,496
Note payable, net of unamortized debt issuance costs	$ 1,485,504

5. Related party transactions

ACRF Lender Loan
On July 27, 2017, ACRF entered into a loan agreement with ACRF Lender for the amount of $1,270,000 (the "ACRF Lender Loan"). Pursuant to the loan agreement, interest accrues at a fixed rate of 4.50% per annum. The loan is secured by the Leverage Loan and related documents.

Interest-only payments are due on the 20th day of the last month of each calendar quarter, commencing on September 20, 2017. On the maturity date of July 31, 2027, the entire principal balance and any accrued interest is due. As of December 31, 2017, the outstanding principal balance of the ACRF Lender Loan was $1,270,000. For the year ended December 31, 2017, interest incurred and paid on the ACRF Lender Loan was $24,448.

Management services - Development Finance Authority of Summit County
Pursuant to the Amended and Restated Management Services Agreement ("Management Agreement") between the Corporation and DFA, DFA agreed to provide management, financial, operational compliance and administrative services as necessary to assist the Corporation in fulfilling its on-going, day-to-day responsibilities. In exchange for these services, the Corporation pays DFA a fee in an amount equal to: (a) fifty percent (50%) of (i) closing fees and (ii) any ongoing administrative fees received by the Corporation from time to time under the NMTC program for investments, loans and/or transactions consummated thereunder; and (b) all out-of-pocket expenses incurred by DFA and its service personnel consisting of travel, outside consultants, conference calls, postage, courier costs and other miscellaneous expenses. For the years ended December 31, 2017 and 2016, the Corporation incurred and paid management services expenses of $153,346 and $570,156, respectively. In addition to the fees described above, in 2017 the Corporation was also required to pay DFA a one-time fee of $25,000 for services associated with the preparation and submittal of DFWR's NMTC application (the "2017 Application Fee"). For the year ended December 31, 2017, the Corporation incurred and paid the 2017 Application Fee to DFA and this fee is included in application fees on the accompanying consolidated statements of activities and changes in net assets.

On December 12, 2017, the Management Agreement was amended (the "Amended Management Agreement"). Commencing in 2018, pursuant to the Amended Management Agreement, the Corporation will pay DFA a fee in an amount equal to (a) $200,000, payable in quarterly installments, to compensate DFA for the use of its staff and resources; (b) in the event the Corporation closes on future projects, fifty percent (50%) of all (i) closing fees and (ii) any ongoing administrative fees received by the Corporation after January 1, 2018, not to exceed $200,000 per year; and (c) all out-of-pocket expenses incurred by DFA and its service personnel consisting of travel, outside consultants, conference calls, postage, courier costs and other miscellaneous expenses. In addition to the fees described above, in 2018 the Corporation will also be required to pay DFA a one-time fee of $35,000 for services associated with the preparation and submittal of DFWR's NMTC application, payable upon submission of the application.

5. Related party transactions (continued)

Sub-allocation fee income

Pursuant to the operating agreements of the Sub-CDEs, at the respective closing date of each of the underlying transactions, and in consideration for services rendered in connection with the sub-allocation and organization of the Sub-CDEs and the issuance of qualified equity investments, the Corporation is entitled to receive fees equal to 3% of the *qualified equity investments* ("QEIs") issued by the Sub-CDEs.

During the years ended December 31, 2017 and 2016, the Corporation received sub-allocation fees as follows:

Sub-CDE	2017	2016
Western Reserve VI	$ -	$ 225,000
Western Reserve VII	-	230,000
Western Reserve VIII	-	150,000
Western Reserve IX	-	157,500
Western Reserve X	-	135,000
Total	$ -	$ 897,500

The sub-allocation fees are recognized as revenue over the seven-year NMTC compliance period. For the years ended December 31, 2017 and 2016, $285,065 and $221,340, respectively, of sub-allocation fees were earned and are included in sub-allocation fee income on the accompanying consolidated statements of activities and changes in net assets. As of December 31, 2017 and 2016, the deferred sub-allocation fees are $1,145,750 and $1,430,816, respectively, and are included in deferred revenue on the accompanying consolidated statements of financial position.

5. Related party transactions (continued)

Asset management fee income
Pursuant to the operating agreements of the Sub-CDEs, the Corporation is entitled to receive annual asset management fees, prorated for partial years, for administering, managing, and directing the business of the Sub-CDEs to comply with all of the NMTC Program requirements as follows:

Sub-CDE	Annual Fee	
Western Reserve I	$	35,000
Western Reserve II		32,500
Western Reserve III		32,500
Western Reserve IV		25,000
Western Reserve V		27,500
Western Reserve VI		37,500
Western Reserve VII		27,500
Western Reserve VIII		25,000
Western Reserve IX		26,250
Western Reserve X		22,500
Western Reserve XI		33,750
Total	$	325,000

For the years ended December 31, 2017 and 2016, asset management fees earned and received were $291,250 and $237,395, respectively.

Servicing fees
Pursuant to the operating agreement of Western Reserve II, the Corporation is entitled to receive annual fees totaling $3,500. This amount includes reimbursement of annual fees of $2,500 paid by the Corporation on behalf of Western Reserve II, and $1,000 for compensation for services provided by the Corporation on behalf of Western Reserve II related to administering its State of Ohio NMTC allocation (see Note 10). For each of the years ended December 31, 2017 and 2016, the Corporation earned servicing fees of $5,000, which are included in servicing fees on the accompanying consolidated statements of activities and changes in net assets. As of both December 31, 2017 and 2016, servicing fees of $2,625 remain outstanding, and are included in due from related parties on the accompanying consolidated statements of financial position.

Audit and tax fee reimbursement
For the years ended December 31, 2017 and 2016, the Corporation received audit and tax fee reimbursements from the Sub-CDEs totaling $101,000 and $91,000, respectively. As of both December 31, 2017 and 2016, there were no audit and tax fee reimbursements outstanding.

5. Related party transactions (continued)

Investments in Subsidiaries

Pursuant to the operating agreements of the Subsidiaries, the Corporation made capital contributions totaling $34,200 in exchange for a 0.01% ownership interest in each of the Subsidiaries. The investment balance in the Subsidiaries at December 31, 2017 and 2016 was $34,138 and $5,784, respectively. The equity in the net income in the Subsidiaries for the years ended December 31, 2017 and 2016 was $79 and $70, respectively. As of December 31, 2017 and 2016, the Company had made all required contributions.

Summarized financial information of the Subsidiaries as of December 31, 2017 and 2016 is as follows:

	2017	2016
Assets	$ 65,640,634	$ 57,841,559
Liabilities	5,875	2,625
Members' equity	65,634,759	57,838,934
Total liabilities & members' equity	$ 65,640,634	$ 57,841,559

Summarized financial information of the Subsidiaries for the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
Revenue	$ 1,419,084	$ 1,196,079
Expenses	(619,689)	(509,332)
Net income	$ 799,395	$ 686,747

6. Prepaid loan servicing fee

Pursuant to the loan servicing agreement between Western Reserve I and FFM, an annual servicing fee in the amount of $5,000 shall be paid to FFM in advance in annual installments. As of both December 31, 2017 and 2016, the prepaid loan servicing fee was $3,616. For each of the years ended December 31, 2017 and 2016, loan servicing fees amounted to $5,000.

7. Grants

In 2017 and 2016, DFWR received grant funds totaling $1,365,525 and $610,000, respectively, to be used by DFWR to make capital contributions in ACRF and ACRF Lender. The grant funds were received from community organizations and other funding sources. For the year ended December 31, 2017, grant revenue of $1,415,525, which includes $50,000 of grant revenue that was deferred as of December 31, 2016, was recognized and is included in net assets without donor restrictions in the accompanying consolidated statements of activities and changes in net assets. In addition, grant revenue of $65,000 was recognized and is included in net assets with donor restrictions in the accompanying consolidated statements of activities and changes in net assets. For the year ended December 31, 2016, grant revenue of $610,000 was recognized and included in net assets with donor restrictions in the accompanying consolidated statements of activities and changes in net assets. These contributions were released from restrictions in 2017.

As of December 31, 2017 and 2016, grant funds not yet received totaled $65,000 and $0, respectively, and are included in grants receivable on the accompanying consolidated statements of financial position.

8. Net assets

Net assets without donor restrictions
Net assets without donor restrictions consist of the following as of December 31:

	2017	2016
Undesignated	$ 1,599,442	$ (638,663)
Total net assets without donor restrictions	$ 1,599,442	$ (638,663)

Net assets with donor restrictions
Net assets with donor restrictions consist of the following as of December 31:

	2017	2016
Grants	$ 147,553	$ 610,000
Total net assets with donor restrictions	$ 147,553	$ 610,000

9. Federal new markets tax credits

Pursuant to the Allocation Agreements among the Corporation, the Sub-CDEs and other subsidiary CDEs of the Corporation, and the Community Development Financial Institutions Fund ("CDFI Fund"), dated April 11, 2012 and August 20, 2015, the Corporation was allocated the authority to issue $20,000,000 and $45,000,000 of QEIs, respectively. Equity investments received by the Sub-CDEs may be designated as QEIs if they meet the requirements of Internal Revenue Code Section 45D and Treasury Regulation Section 1.45D-1. NMTCs are allowed to be claimed by the members of the Sub-CDEs over a seven-year period spanning six years and a day for any equity investment that is designated a QEI by the Corporation or its Sub-CDEs' members.

In order to qualify for these credits, the Corporation and the Sub-CDEs must comply with requirements of Internal Revenue Code Section 45D and Treasury Regulation Section 1.45D-1 during the seven-year credit period. Failure to comply with the requirements could result in the recapture of NMTCs that have been previously claimed as well as the loss of any future NMTCs. The three events that can cause recapture are: [1] the Corporation or any of the Sub-CDEs ceases to be a CDE; [2] failing to ensure that for each annual period in the seven-year credit period, at least 85 percent of the qualified equity investments received by the Sub-CDEs are continuously invested in any low-income community investment (which may include 5% of the qualified equity investments received to be held as loan loss reserves); and [3] a QEI is redeemed by the Sub-CDEs. Failure by the Corporation or Sub-CDEs to meet any of the above requirements may also cause the Corporation to be in default of the Allocation Agreements.

The Corporation has established an advisory board ("Advisory Board") in order to maintain accountability to the low-income communities served by the Corporation. At least 20% of the Advisory Board membership must be representative of the low-income communities served.

10. State of Ohio new markets tax credits

Pursuant to the State of Ohio Administrative Code Chapter 122:22 New Markets Tax Credits (the "Ohio Statute"), during 2011, 2013 and 2015, the Corporation applied for and received the authority to issue up to $2,564,102, $5,128,205 and $2,564,102, respectively, in Ohio qualified equity investments ("Ohio QEIs"). Under the Ohio Statute, the Sub-CDEs' members will be allowed to claim Ohio new markets tax credits over seven periods spanning six years and one day for any equity investment made by such member that is designated as an Ohio QEI within the meaning of the Ohio Statute and has at least 85% of its cash purchase price used by the issuer to make qualified low income community investments.

10. State of Ohio new markets tax credits (continued)

As of December 31, 2017 and 2016, the Corporation sub-allocated its State of Ohio new markets tax credit allocation to its Subsidiaries as follows:

Sub-CDE	2017	2016
Western Reserve II	$ 2,564,103	$ 2,564,103
Western Reserve III	2,564,102	2,564,102
Western Reserve VII	2,564,102	2,564,102
Total	$ 7,692,307	$ 7,692,307

Pursuant to the Agreement Regarding Allocation (the "PNC Agreement") between the Corporation and PNC Community Partners, Inc. ("PNC"), in 2015 the Corporation sub-allocated $2,564,102 (the "Remaining Allocation") of its Ohio QEIs to PNC CDE 60, LP (the "PNC Subsidiary Allocatee"). In exchange for the utilization of the Remaining Allocation, PNC was required to pay the Corporation a one-time sub-allocation fee of $60,000 at the closing of the PNC Subsidiary Allocatee's project and an additional $1,500 annual servicing fee. The sub-allocation fee is recognized as revenue over the seven-year NMTC compliance period. For each of the years ended December 31, 2017 and 2016, $8,571 of sub-allocation fees were earned and are included in sub-allocation fee income on the accompanying consolidated statements of activities and changes in net assets. As of December 31, 2017 and 2016, deferred sub-allocation fees were $42,271 and $50,842, respectively, and are included in deferred revenue on the accompanying consolidated statements of financial position. For each of the years ended December 31, 2017 and 2016, the servicing fee earned and received was $1,500 and is included in servicing fees on the accompanying consolidated statements of activities and changes in net assets.

11. Contingency

Pursuant to certain indemnification agreements entered into for the underlying NMTC transactions, the Corporation is obligated to reimburse an affiliate of the Sub-CDEs' respective investor members for any loss, damage, liability or claim incurred by the investor member in connection with certain specified NMTC recapture events, as defined in each indemnification agreement. As of December 31, 2017 and 2016, no claims or payments had been made relative to the indemnities and the Corporation is not aware of the occurrence of any recapture event. The Corporation has evaluated its exposure pursuant to the indemnification agreements and has determined the maximum dollar amount of such exposure to be equal to the NMTCs for each transaction in addition to any penalties, interest, and applicable IRR true-up amounts on an after tax basis. The Corporation has determined the likelihood of a recapture event to be remote after considering the historical rate of recapture and related factors. Accordingly, no liability has been recorded relative to the indemnification agreements.

12. Liquidity and availability of resources

The Corporation has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The following reflects the Corporation's financial assets as of the balance sheet date, reduced by the amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. Amounts not available include cash and grants receivable set aside for additional financing costs related to the Small-QLICI Fund.

Total assets, end of year	$ 5,699,111
Less nonfinancial assets:	
Prepaid expenses	(8,618)
Financial assets, end of year	5,690,493
Less those unavailable for general expenditure within one year due to:	
Cash restricted for Small-QLICI Fund	(82,553)
Grants restricted for Small-QLICI Fund	(65,000)
Financial assets available to meet cash needs for general expenditure within one year	$ 5,542,940

13. Subsequent events

Subsequent events have been evaluated through May 15, 2018, which is the date the consolidated financial statements were available to be issued. The following is a summary of significant transactions through May 15, 2018:

On March 21, 2018, DFWR, as managing member of Western Reserve XI, entered into a fee waiver agreement with Twain, the investor member of Western Reserve XI. Pursuant to the fee waiver agreement, DFWR has waived its right to asset management fees totaling $65,000 that it is entitled to receive under the operating agreement of Western Reserve XI.

In 2018, DFWR, as sole member of ACRF, has agreed to make additional capital contributions totaling $65,000 to ACRF. On March 21, 2018, DFWR made a capital contribution of $20,472 to ACRF.

In 2018, DFWR closed two transactions in the Small-QLICI Fund and received a total of $40,208 in sub-allocation fees.

SUPPLEMENTAL INFORMATION

DEVELOPMENT FUND OF THE WESTERN RESERVE, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2017

	DFWR	ACRF	Eliminations	Consolidated Total
ASSETS				
Current assets				
Cash and cash equivalents	$ 783,027	$ 4,132	$ -	$ 787,159
Restricted cash	82,553	-	-	82,553
Due from related parties	2,625	-	-	2,625
Grants receivable	65,000	-	-	65,000
Prepaid loan servicing fee	3,616	-	-	3,616
Prepaid insurance	3,752	-	-	3,752
Prepaid other expenses	1,250	-	-	1,250
Total current assets	941,823	4,132	-	945,955
Long-term assets				
Deferred charges, net of accumulated amortization	24,143	-	-	24,143
Investments in subsidiaries	1,977,641	-	(1,943,503)	34,138
Loan receivable	-	4,694,875	-	4,694,875
Total long-term assets	2,001,784	4,694,875	(1,943,503)	4,753,156
Total assets	$ 2,943,607	$ 4,699,007	$ (1,943,503)	$ 5,699,111
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	$ 3,591	$ -	$ -	$ 3,591
Deferred revenue	285,357	-	-	285,357
Restricted deposits	5,000	-	-	5,000
Total current liabilities	293,948	-	-	293,948
Long-term liabilities				
Deferred revenue	902,664	-	-	902,664
Note payable, related party	-	1,270,000	-	1,270,000
Note payable, net of unamortized debt issuance costs	-	1,485,504	-	1,485,504
Total long-term liabilities	902,664	2,755,504	-	3,658,168
Net assets	1,746,995	1,943,503	(1,943,503)	1,746,995
Total liabilities and net assets	$ 2,943,607	$ 4,699,007	$ (1,943,503)	$ 5,699,111

DEVELOPMENT FUND OF THE WESTERN RESERVE, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the year ended December 31, 2017

	DFWR	ACRF	Eliminations	Consolidated Total
NET ASSETS WITHOUT DONOR RESTRICTIONS				
REVENUE				
Sub-allocation fee income	$ 293,637	$ -	$ -	$ 293,637
Interest income	163	46,371	-	46,534
Contributions	1,332,972	-	-	1,332,972
Asset management fees	291,250	-	-	291,250
Servicing fees	5,000	-	-	5,000
Audit and tax fee reimbursement	101,000	-	-	101,000
Other income	-	25,000	-	25,000
Net assets released from restrictions	610,000	-	-	610,000
Total revenue	2,634,022	71,371	-	2,705,393
EXPENSES				
Management services - DFA	153,346	-	-	153,346
Professional fees	143,443	-	-	143,443
General and administrative expenses	48,118	31	-	48,149
Insurance fees	5,187	-	-	5,187
Application fees	61,500	-	-	61,500
Advertising fees	1,000	-	-	1,000
Loan servicing fee	5,000	-	-	5,000
Interest expense	-	42,712	-	42,712
Amortization	7,030	-	-	7,030
Total expenses	424,624	42,743	-	467,367
Income before equity in net income of investments	2,209,398	28,628	-	2,238,026
Equity in net income of investments in subsidiaries	28,707	-	(28,628)	79
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	2,238,105	28,628	(28,628)	2,238,105
NET ASSETS WITH DONOR RESTRCTIONS				
Contributions	147,553	-	-	147,553
Net assets released from restrictions	(610,000)	-	-	(610,000)
DECREASE IN NET ASSETS WITH DONOR RESTRICTIONS	(462,447)	-	-	(462,447)
CHANGE IN NET ASSETS	1,775,658	28,628	(28,628)	1,775,658
NET ASSETS AT BEGINNING OF YEAR	(28,663)	-	-	(28,663)
NET ASSETS AT END OF YEAR	$ 1,746,995	$ 28,628	$ (28,628)	$ 1,746,995

see report of independent auditors