PREFERRED PROPERTIES, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2016 AND 2015

CONTENTS

GJM GILMORE JASION MAHLER, LTD
INNOVATIVE IDEAS. TRUSTED ADVICE.

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Preferred Properties, Inc.
Toledo, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of Preferred Properties, Inc. (a nonprofit organization) which consist of the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

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Basis for Qualified Opinion

Accounting principles generally accepted in the United States of America require that a parent company consolidate the results of its wholly-owned subsidiaries. As more fully explained in Note 4 to the financial statements, Preferred Properties, Inc. has not consolidated its related separate housing entities. If the financial statements of the separate housing entities had been consolidated with Preferred Properties, Inc., net assets would increase by approximately $8,585,000 and $8,853,000 at June 30, 2016 and 2015, respectively, and the change in net assets would decrease by approximately $308,000 and increase by approximately $1,307,000 for the years ended June 30, 2016 and 2015, respectively.

Qualified Opinion

In our opinion, except for the effects of not consolidating Preferred Properties, Inc.'s related housing entities as described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Preferred Properties, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Gilmore Jasion Mahler, LTD

Maumee, Ohio
January 6, 2017

PREFERRED PROPERTIES, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

	2016	2015
ASSETS		
Cash and cash equivalents	$ 249,552	$ 346,219
Accounts receivable	3,813	5,618
Accounts receivable–affiliates, net of allowance for doubtful accounts of $56,599 in 2016 and 2015	178,989	172,618
Grants receivable	200,000	0
Net property, furniture, and equipment	2,406,695	2,556,969
Prepaid expenses and deposits	8,888	36,163
Undeveloped land	245,571	245,571
Mortgages receivable–affiliates, limited to use	4,068,427	4,068,427
Interest receivable–affiliates, limited to use, net of allowance	1,349,983	1,138,265
Total assets	$ 8,711,918	$ 8,569,850
LIABILITIES AND NET ASSETS		
Accounts payable	$ 31,456	$ 21,852
Accounts payable–affiliates	3,225	3,270
Accrued expenses	19,846	14,348
Security deposits	25,051	24,451
Total liabilities	79,578	63,921
Net assets		
Unrestricted	4,178,759	4,013,721
Temporarily restricted	4,353,581	4,392,208
Permanently restricted	100,000	100,000
Total net assets	8,632,340	8,505,929
Total liabilities and net assets	$ 8,711,918	$ 8,569,850

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

PREFERRED PROPERTIES, INC.
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2016 and 2015

	2016			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Support and revenues				
Lucas County Board of Developmental Disability - administrative subsidy	$ 400,000	$ 0	$ 0	$ 400,000
Rental income	335,799			335,799
Interest income	211,966			211,966
Contributions and other grants	549	35,288		35,837
Development income	60,393			60,393
Management income	347,347			347,347
Loss on sale of land	(10,035)			(10,035)
Miscellaneous income	4,091			4,091
Net assets released from restrictions:				
Amortization of state capital and RHAP funds	67,415	(67,415)		0
Satisfaction of donor restrictions	6,500	(6,500)		0
Total support and revenues	1,424,025	(38,627)	0	1,385,398
Expenses				
Housing program services	1,102,663			1,102,663
Management and general support services	156,324			156,324
Total expenses	1,258,987	0	0	1,258,987
Change in net assets	165,038	(38,627)	0	126,411
Net assets at beginning of year	4,013,721	4,392,208	100,000	8,505,929
Net assets at end of year	$ 4,178,759	$ 4,353,581	$ 100,000	$ 8,632,340

2015			
Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
$ 400,000	$ 30,000	$ 0	$ 430,000
325,712			325,712
203,551			203,551
	480,898		480,898
100,557			100,557
346,046			346,046
			0
8,105			8,105
75,471	(75,471)		0
479,388	(479,388)		0
1,938,830	(43,961)	0	1,894,869
1,642,034			1,642,034
467,208			467,208
2,109,242	0	0	2,109,242
(170,412)	(43,961)	0	(214,373)
4,184,133	4,436,169	100,000	8,720,302
$ 4,013,721	$ 4,392,208	$ 100,000	$ 8,505,929

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

PREFERRED PROPERTIES, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2016 and 2015

	2016		
	Housing	**Management and General**	**Total**
Salaries and related expenses:			
Salaries	$ 450,792	$ 91,163	$ 541,955
Payroll taxes and fringes	198,616	42,675	241,291
Total salaries and related expenses	649,408	133,838	783,246
Repairs and maintenance	30,702	3	30,705
Lawn and grounds	41,441		41,441
Interest	306		306
Utilities	42,159		42,159
Travel, meals, and convention expenses	4,775	966	5,741
Supplies and office expenses	7,916	3,665	11,581
Insurance	36,806	682	37,488
Professional services	15,953	3,226	19,179
Rent expense	25,118	12,094	37,212
Telephone	4,817	974	5,791
Appliances	806		806
Real estate taxes	19,387		19,387
Van expenses	15,263		15,263
Contributions to affiliate	0		0
Dues and subscriptions	1,789	362	2,151
Development	14,253		14,253
Advertising	817	393	1,210
Bank fees	12	2	14
Bad debt expense	0		0
Miscellaneous	14,611		14,611
Total expenses before depreciation	926,339	156,205	1,082,544
Depreciation	176,324	119	176,443
Total expenses	$ 1,102,663	$ 156,324	$ 1,258,987

2015		
Housing	Management and General	Total
$ 452,981	$ 113,245	$ 566,226
190,409	50,615	241,024
643,390	163,860	807,250
53,397	539	53,936
46,030		46,030
397		397
43,333		43,333
5,840	1,116	6,956
34,615	5,635	40,250
36,195	1,119	37,314
21,583	5,396	26,979
33,088	20,279	53,367
4,539	1,135	5,674
2,879		2,879
17,082		17,082
15,443		15,443
464,388		464,388
2,054	389	2,443
10,893		10,893
1,114	279	1,393
476	119	595
	267,000	267,000
20,705		20,705
1,457,441	466,866	1,924,307
184,593	342	184,935
$ 1,642,034	$ 467,208	$ 2,109,242

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

PREFERRED PROPERTIES, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Change in net assets	$ 126,411	$ (214,373)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	176,443	184,935
Interest on mortgages receivable–affiliates, limited to use	(211,718)	(220,044)
Bad debt expense	0	267,000
Loss on sale of land	10,035	0
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	1,806	1,128
Accounts receivable–affiliates	(6,371)	(82,423)
Grants receivable	(200,000)	274,620
Prepaid expenses and deposits	27,275	(27,717)
Increase (decrease) in:		
Accounts payable	9,604	90
Accounts payable–affiliates	(45)	(7,320)
Accrued expenses	5,498	(3,938)
Security deposits	600	2,269
Net cash provided by (used in) operating activities	(60,462)	174,227
Cash flows from investing activities		
Purchase of property, furniture, and equipment	(65,205)	(70,295)
Proceeds from sale of land	29,000	0
Net cash used in investing activities	(36,205)	(70,295)
Net increase (decrease) in cash and cash equivalents	(96,667)	103,932
Cash and cash equivalents at beginning of year	346,219	242,287
Cash and cash equivalents at end of year	$ 249,552	$ 346,219
Supplemental disclosure of cash flows information		
Interest paid during the year	$ 306	$ 397

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

Note 1–Organization, basis of presentation, and significant accounting policies

Organization

Preferred Properties, Inc. (Organization) is a not-for-profit Ohio corporation organized exclusively for charitable and educational purposes, primarily to develop and provide affordable and accessible housing to persons with disabilities. The Organization promotes independent living and community participation by people with disabilities, providing them with the opportunity to make independent selections of housing. In 2016 and 2015, approximately 29% and 28%, respectively, of the Organization's revenue from operations was from an administrative subsidy from the Lucas County Board of Developmental Disabilities (LCBDD).

The accompanying financial statements include only the results of the Organization, and not the results of its affiliated housing projects (see Note 4). Separate financial statements have been issued for the combined results of the entities.

Basis of presentation

The Organization maintains its records on the accrual basis of accounting. The accrual basis provides for the recognition of revenues when earned and the recognition of expenses when incurred.

Financial statement presentation

The accompanying financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) topic regarding the presentation of the financial statements for not-for-profit entities, to be in accordance with accounting principles generally accepted in the United States of America. The Organization is required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The unrestricted net assets are used to account for all resources over which the governing board has discretionary control. Temporarily restricted net assets include state funding restricted for the purchase and renovation of houses, net of amortization and grants funds advanced to tax credit projects. During 1995, the Organization received $100,000 from LCBDD that was permanently restricted. Income from the investment of the permanently restricted portion is expendable to support the Organization's accessible housing purposes.

Recognition of donor restrictions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Note 1–Organization, basis of presentation, and significant accounting policies–continued

Contractual arrangements

The Organization, in consultation with qualified disabled individuals, purchases residential properties located throughout the community. The properties are then rehabilitated as necessary and leased to the qualified individuals on a month-to-month basis. The Organization owned thirty-four and thirty-six properties at June 30, 2016 and June 30, 2015, respectively, all of which were being used in the program. Funding for the purchases has been obtained partially through a capital program under Section 154.20(F) of the Ohio Revised Code, which provides funds for Community Assistance Projects administered by the Ohio Department of Developmental Disabilities (OD/DD). Under a contract with the LCBDD, OD/DD provides funds to LCBDD which, in turn, has contracted with the Organization to use the funds to purchase the properties. The contract between LCBDD and the Organization is signed on an annual basis.

The Organization has received various state and local government funds which were loaned to tax credit real estate development projects for the construction of housing. These funds are forgivable by the granting state and local government agencies if the housing is maintained and used for affordable housing for a 15 or 30 year period after construction was completed.

Because of restrictions contained in the OD/DD's Residential Handicap Accessibility Project (RHAP) programs, and other state and local government programs which require the Organization to use the properties for the originally stated purposes for a period of time, amounts received under the programs are initially recorded as temporarily restricted net assets. The program restrictions will expire in various terms ranging from 15 to 30 years from the purchase or construction of the property. Amortization is recognized as a transfer from temporarily restricted net assets to unrestricted net assets. Such amortization amounted to $67,415 and $75,471 in fiscal years 2016 and 2015, respectively.

Development fees

Development fee revenue is recognized when received due to the uncertainty of collectability.

Cash and cash equivalents

For purposes of the statements of cash flows, the Organization considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Organization had no cash equivalents at June 30, 2016 and 2015.

Allowance for doubtful accounts

Bad debts are provided for using the allowance method based on management's evaluation of the collectability of outstanding accounts receivable at the end of the year.

Note 1–Organization, basis of presentation, and significant accounting policies–continued

Property, furniture, and equipment

The residences, their rehabilitation costs, and other property are recorded on the Organization's financial statements at cost, and are being depreciated on a straight line basis over their estimated useful lives, generally 5 to 27½ years. The Organization capitalizes expenditures of over $1,000 for equipment and repairs.

The Organization reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. The organization recorded no impairment losses related to its property, furniture, and equipment in 2016 and 2015.

Undeveloped land

The Organization records undeveloped land at acquisition cost. The carrying value of undeveloped land is evaluated by management each year and has been reduced to the estimated realizable value. Accumulated provisions for impairment amounted to $149,663 at June 30, 2016 and 2015.

In-kind donations

Donations of property and equipment are recorded at their estimated fair value at the date of donation.

Advertising costs

Advertising costs amounted to $1,210 and $1,393 in 2016 and 2015, respectively. Advertising costs are expensed in the period incurred.

Functional allocation of expenses

The costs of providing the various activities have been summarized on a functional basis in the statements of activities. Certain costs not directly attributable to specific program services or functions have been allocated by management between program services and supporting services.

Use of estimates

The preparation of 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 of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during that period. Actual results could differ from those estimates.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Note 1–Organization, basis of presentation, and significant accounting policies–continued

Income tax status

The Organization has been determined by the Internal Revenue Service to be exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as a publicly supported organization.

Management of the Organization is required to determine whether a tax position of the Organization is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Management of the Organization is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months. However, management's conclusions may be subject to review and adjustment at a later date based on factors including, but not limited to, new tax laws, regulations, and administrative interpretations (including relevant court decisions). The Organization's federal tax returns for the prior three fiscal years remain subject to examination by the Internal Revenue Service.

New accounting pronouncement

On August 18, 2016, the FASB issued Accounting Standards Update 2016-14 (ASU 2016-14), *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 improves existing standards for financial statement presentation by not-for-profit organizations. ASU 2016-14 is effective for annual reporting periods beginning after December 31, 2017, and interim periods with fiscal years beginning after December 15, 2018. The Organization is currently evaluating the impact of this update on their financial statements.

Subsequent events

The Organization has evaluated all events subsequent to the balance sheet date of June 30, 2016, through January 6, 2017, which is the date these financial statements were issued, and have determined that there are no subsequent events that require disclosure.

Note 2–Property, furniture, and equipment

Property, furniture, and equipment consisted of the following at June 30, 2016 and 2015:

	2016	2015
Land and improvements	$ 486,476	$ 514,040
Buildings	2,596,206	2,627,861
Building improvements	1,896,785	1,856,467
Furniture and fixtures	54,603	54,603
Equipment	34,774	34,774
Vehicle	100,630	100,630
Total Property and Equipment	5,169,474	5,188,375
Less: Accumulated Depreciation	2,762,779	2,631,406
Net Property and Equipment	$ 2,406,695	$ 2,556,969

Note 3–Lines of credit

The Organization has access to a line of credit arrangement for a maximum amount of $200,000 at June 30, 2016 and 2015. Net advances on the line of credit were $0 at June 30, 2016 and 2015. Bank advances on the line are due on demand and carry a variable interest rate of prime (3.50% at June 30, 2016), but no less than 4.0%. The $200,000 credit line is secured by substantially all of the assets of the Organization. The line of credit expires on November 30, 2016.

Note 4–Related entities

HUD Projects

Preferred Properties is the sponsor of, and management company for, the following real estate projects which were financed primarily through grants from the U.S. Department of Housing and Urban Development under its Section 811, *Supportive Housing for Persons with Disabilities Program,* and Section 202, *Supportive Housing for the Elderly Program*:

- Accessible Country Trail, Inc. (Project No. 042-HD033), (Accessible County Trail)
- Accessible Country Trail, Inc. II (Project No. 042-HD055), (Swan Creek West Apartments)
- Ottawa River Estates, Inc. (Project No. 042-HD072), (Ottawa River Estates)
- Brook View Gardens, Inc. (Project No. 042-HD087), (Brook View Gardens)
- Woodside Village, Inc. (Project No. 042-HD112), (Woodside Village)
- Bridge Point Senior Village, Inc. (Project No. 042-EE259), (Bridge Point Senior Village)

Activity with related parties in 2016 and 2015 is as follows:

In 2015, Preferred Properties, Inc. received grant funds amounting to $464,388, of which $164,388 from the City of Toledo, under its HOME Investment Partnership Program (HOME), and $300,000 from Ohio Housing Finance Agency – HDAP Grant, and contributed them to Bridge Point Senior Village as a contribution to affiliate. In 2016, no additional grant funds were received by Preferred Properties, Inc. to be passed through to Bridge Point Senior Village.

Currently, the Boards of Trustees of Accessible Country Trail, Swan Creek West Apartments, Ottawa River Estates, Brook View Gardens, Woodside Village and Bridge Point Senior Village consist of individuals who are also members of the Board of Trustees of Preferred Properties, Inc. According to the Financial Accounting Standards Board (FASB) topic regarding Non-for-Profit Entities, the Organization is required to consolidate these housing projects, as it has control of and an economic interest in the housing projects. Separate financial statements have been issued for the combined results of these entities.

Preferred Properties, Inc. has not consolidated its related separate housing entities. If the financial statements of the separate housing entities had been consolidated with Preferred Properties, Inc., net assets would increase by approximately $8,585,000 and $8,853,000 at June 30, 2016 and 2015, respectively, and the change in net assets for the year ended June 30, 2016 would decrease by approximately $308,000 and year ended June 30, 2015 would increase by approximately $1,307,000.

Note 4–Related entities–continued

HUD Projects–continued

Summarized financial information for Accessible Country Trail, Swan Creek West Apartments, Ottawa River Estates, Brook View Gardens, Woodside Village and Bridge Point Senior Village as of June 30, 2016 and 2015 and the years then ended is as follows:

	2016	2015
Assets	$ 8,772,000	$ 9,247,000
Liabilities	164,000	372,000
Revenues	671,000	2,229,000
Expenses	979,000	921,000

Low Income Housing Tax Credit Projects

Preferred Properties is a partial owner of certain for-profit corporations which individually are partners in the following real estate projects which were financed primarily through Low Income Housing Tax Credits:

- Preferred Properties Autumn Wood, Inc., which has partnership interests in Autumn Wood Limited Partnership (Autumn Wood)
- Preferred Properties Autumn Wood II, Inc., which has a partnership interest in Autumn Wood II Limited Partnership (Autumn Wood II)
- Willard Development Corporation (WDC), which is a 52% general partner in W.P.R. Partnership, Ltd., which currently owns and operates a tax credit project known as Willard Apartments (Willard)
- PPI Wauseon, Inc., which has a .0051% ownership stake in Wauseon Senior Village (Wauseon)
- PPI Whitehouse, Inc., which has a .0051% ownership stake in Whitehouse Square Senior Village (Whitehouse)
- PPI Sylvania, Inc., which has a .051% ownership stake in Sylvania Senior Residence, LLC (Sylvania)
- PPI-Whitehouse Square Townhomes, Inc., which has a 0.51% ownership stake in Whitehouse Square Townhomes, LLC.

As of June 30, 2016 and 2015, the Organization held cash on behalf of Autumn Wood II amounting to $3,225 and $3,270, respectively. This amount is included in accounts payable – affiliate.

The Organization is entitled to a developer's fee from Wauseon in the amount of $498,600; of this amount, $210,420 and $214,102 remains unpaid as of June 30, 2016 and 2015.

Note 4–Related entities–continued

Low Income Housing Tax Credit Projects–continued
The Organization is entitled to a developer's fee from Bridge Point Senior Village in the amount of $112,268; of this amount, $0 and $1,711 remains unpaid as of June 30, 2016 and 2015, respectively.

The Organization is entitled to a developer's fee from Whitehouse Square Townhomes in the amount of $110,000; of this amount, $55,000 and $110,000 remains unpaid as of June 30, 2016 and 2015, respectively.

Income from related parties at June 30, 2016 and 2015 are as follows:

	2016	2015
Developer fee	$	$
Wauseon	3,682	0
Whitehouse Square Townhomes	55,000	0
Bridge Point Senior Village	1,711	100,557
Total	$ 60,393	$ 100,557
Management, maintenance and service coordination fees		
Accessible County Trail	$ 37,706	$ 38,617
Swan Creek West Apartments	25,834	26,852
Ottawa River Estates	21,534	22,073
Brook View Gardens	28,600	28,478
Woodside Village	19,527	19,801
Bridge Point Senior Village	18,707	5,999
Autumn Wood I & II	74,328	90,266
WDC	13,688	13,971
Total	$ 239,924	$ 246,057
Total income from related parties	$ 300,317	$ 346,614

Note 4–Related entities–continued

Accounts receivable – affiliates
Accounts receivable–affiliates at June 30, 2016 and 2015 are as follows:

	2016	2015
Accounts receivable – affiliates		
Accessible Country Trail	$ 5,147	$ 721
Brook View Gardens	4,823	2,609
Ottawa River Estates	273	4,303
Woodside Village	6,056	3,118
Willard Apartments	119,699	97,294
Autumn Wood I and II	44,993	23,524
Bridge Point Senior Village	8,249	51,968
Bridge Point Senior Village Deferred Developer Fee	25,000	25,000
Wauseon Senior Village	0	5,565
Whitehouse Square Village	16,990	13,388
Swan Creek Apartments	4,358	1,727
Total accounts receivable – affiliates	235,588	229,217
Less allowance for doubtful accounts	(56,599)	(56,599)
Accounts recieveable – affiliates, net allowance	$ 178,989	$ 172,618

	2016	2015
Accounts payable – affiliates		
Autumn Wood I and II	3,225	3,270
Total accounts payable – affiliates	$ 3,225	$ 3,270

Note 4–Related entities–continued

Mortgages receivable – affiliates

Preferred Properties, Inc. distributed grant funding to tax credit projects in the form of mortgages receivable during the construction of the projects. The mortgage receivable-affiliates, limited to use as of June 30, 2016 and 2015 are as follows:

	2016	2015
Mortgage receivable to Autumn Wood, LP, bears interest at 7.5%. The entire principal balance plus accrued interest is due and payable in September 2034. Management has established an allowance against the interest receivable on the note due from Autumn Wood, LP in the amount of $76,850 at June 30, 2016 and 2015.	$ 602,376	$ 602,376
Mortgage receivable to Autumn Wood II, LP bears interest at 6.99%. The entire principal balance plus accrued interest is due and payable in August of 2033. Management has established an allowance against the interest receivable on the note due from Autumn Wood II, LP in the amount of $35,510 at June 30, 2016 and 2015.	250,000	250,000
Mortgage receivable to Willard Development Corporation bears interest at 6.45%. The entire principal balance plus accrued interest is due and payable in March of 2031. Management has established an allowance against the mortgage and interest receivable due from Willard Development Corporation in the amount of $450,470 and $430,423 at June 30, 2016 and 2015, respectively.	166,051	166,051
Mortgage receivable to Wauseon Senior Village, LLC bears interest at 4.07%. The entire principal balance plus accrued interest is due and payable in December of 2040.	1,200,000	1,200,000
Mortgage receivable to Whitehouse Senior Village, LLC bears interest at 2.0%. The entire principal balance plus the accrued interest is due and payable in February of 2041.	1,000,000	1,000,000
Mortgage receivable to Sylvania Senior Residents, LLC bears interest at 2.0%. The entire principal balance plus the accrued interest is due and payable in June of 2041.	850,000	850,000
Total mortgage receivables–affiliates, limited to use	$ 4,068,427	$ 4,068,427

Note 4–Related entities–continued

Mortgages Receivable – affiliates–continued
The above stated mortgage receivable have long-term repayment terms, which will be funded by the selling or redevelopment of the underlying real estate collateral at the end of a restricted use period which ranges from fifteen to thirty years. Management believes that the underlying collateral will permit the Organization to collect the principal due from these mortgages receivable in accordance with the terms of the agreements.

Deferred interest receivable on specific mortgage receivables is as follows at June 30:

	2016	2015
Autumn Wood, LP	$ 663,950	$ 570,240
Autumn Wood II, LP	198,956	166,788
Wauseon Senior Village, LLC	308,294	259,454
Whitehouse Senior Village, LLC	104,559	84,559
Sylvania Senior Residents, LLC	74,224	57,224
	$ 1,349,983	$ 1,138,265

Guaranty Arrangements with Related Parties
The Organization is a party to Guaranty Agreement for the operations of Autumn Wood and Autumn Wood II. The Guaranty Agreement requires Preferred Properties, Inc. to provide up to $123,449 to Autumn Wood and Autumn Wood II, respectively, in order to permit Autumn Wood and Autumn Wood II to meet all reasonable current costs of owning and operating the project property throughout the period as defined in the Agreement. Amounts paid by Preferred Properties, Inc. to Autumn Wood and Autumn Wood II pursuant to this Agreement shall be treated as a loan bearing interest at the Applicable Federal Rate repayable as cash flow of the Autumn Wood and Autumn Wood II permits. Preferred Properties, Inc. has not advanced any funds to Autumn Wood and Autumn Wood II pursuant to this agreement. Preferred Properties, Inc. does not receive a fee for providing this Guaranty. As of June 30, 2016 and 2015, Preferred Properties was not required to make any payments under these guaranty agreements.

Willard Development Corporation (WDC), which is a 52% general partner in W.P.R. Partnership, Ltd., which currently owns and operates a tax credit project known as Willard Apartments (Willard). Preferred Properties, Inc. is a party to a guaranty agreement for the completion of the tax credit project and the start-up of operations. The maximum liability under the agreement is $15,000.

Note 5–Pension plan

As of January 1, 2006, the Organization established a 403 (b) Retirement Plan. Employees are also able to make voluntary contributions to a 403(b) salary reduction plan. Amounts contributed by Preferred Properties, Inc. totaled $21,639 and $25,363 in 2016 and 2015, respectively.

Note 6–Contingencies

Grants

The Organization receives financial assistance from various governmental agencies in the form of grants and contracts. The disbursement of funds received under these programs generally requires compliance with terms and a condition specified in the grant agreements and contracts, and is subject to audit by the grantor and contracting agencies. Any disallowed claims resulting from such audits could become a liability of the Organization. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Organization at June 30, 2016 and 2016.

Litigation

In the normal course of operations, the Organization may be subject to litigation and claims. While the outcome of such matters cannot presently be determined, management believes that their ultimate resolution will not have a material adverse effect on the accompanying financial statements.

Investment in tax credit partnerships

In the normal course of operations, various tax credit partnerships that the Organization has an interest in may be subject to various tax issues. While the outcome of any such matters cannot presently be determined, management believes that their ultimate resolution will not have a material adverse effect on the accompanying financial statements.