38 Front Avenue

Financial Report

June 30, 2017

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Independent Auditor's Report

To the Board of Directors
38 Front Avenue

We have audited the accompanying financial statements of 38 Front Avenue (a not-for-profit organization) (the "Organization"), which comprise the balance sheet as of June 30, 2017 and 2016 and the related statements of activities and changes in net assets 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 audits to obtain reasonable assurance about whether the financial statements are free from 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 basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 38 Front Avenue as of June 30, 2017 and 2016 and the results of its operations and changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

October 27, 2017

Balance Sheet

	June 30, 2017	June 30, 2016
Assets		
Cash and cash equivalents	$ 531,287	$ 499,631
Contributions receivable (Note 2)	1,877,743	1,884,579
Prepaid expenses	96,133	96,133
Other assets	3,976,974	2,992,150
Capital assets - Net (Note 3)	36,036,773	37,086,294
Total assets	**$ 42,518,910**	**$ 42,558,787**
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ -	$ 1,558
Accrued and other current liabilities	170,010	170,010
Notes payable - Net (Note 4)	30,946,026	30,924,811
Total liabilities	31,116,036	31,096,379
Net Assets		
Unrestricted	9,525,135	9,577,833
Temporarily restricted	1,877,739	1,884,575
Total net assets	11,402,874	11,462,408
Total liabilities and net assets	**$ 42,518,910**	**$ 42,558,787**

Statement of Activities and Changes in Net Assets

	Year Ended June 30					
	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue, Gains, and Other Support						
Rental income	$ 1,738,913	$ -	$ 1,738,913	$ 1,739,048	$ -	$ 1,739,048
Net assets released from restrictions	6,836	(6,836)	-	6,703	(6,703)	-
Total revenue, gains, and other support	1,745,749	(6,836)	1,738,913	1,745,751	(6,703)	1,739,048
Expenses						
General and administrative	217,681	-	217,681	216,787	-	216,787
Depreciation	1,049,521	-	1,049,521	1,049,521	-	1,049,521
Interest expense	531,245	-	531,245	531,245	-	531,245
Total expenses	1,798,447	-	1,798,447	1,797,553	-	1,797,553
Decrease in Net Assets	(52,698)	(6,836)	(59,534)	(51,802)	(6,703)	(58,505)
Net Assets - Beginning of year	9,577,833	1,884,575	11,462,408	9,629,635	1,891,278	11,520,913
Net Assets - End of year	**$ 9,525,135**	**$ 1,877,739**	**$11,402,874**	**$ 9,577,833**	**$ 1,884,575**	**$11,462,408**

Statement of Cash Flows

	Year Ended June 30, 2017	Year Ended June 30, 2016
Cash Flows from Operating Activities		
Decrease in net assets	$ (59,534)	$ (58,505)
Adjustments to reconcile decrease in net assets to net cash from operating activities:		
Depreciation	1,049,521	1,049,521
Fair market value of ground lease contribution, net of rent expense	6,836	6,703
Amortization of deferred finance costs	21,215	21,215
Changes in operating assets and liabilities which (used) provided cash:		
Prepaid expenses and other assets	(984,824)	(991,921)
Accounts payable	(1,558)	1,558
Net Increase in Cash and Cash Equivalents - Net cash provided by operating activities	31,656	28,571
Cash and Cash Equivalents - Beginning of year	499,631	471,060
Cash and Cash Equivalents - End of year	**$ 531,287**	**$ 499,631**
Supplemental Disclosure of Cash Flow Information - Cash paid for interest	**$ 510,030**	**$ 510,030**

Note 1 - Nature of Business and Significant Accounting Policies

38 Front Avenue (the "Organization") was formed on February 2, 2010, but had no activity until September 2011. The Organization is considered a component unit of Grand Valley State University. The Organization was created exclusively to own the property known as the L. William Seidman Center (the "Building") and to develop, finance, construct, own, maintain, and sell or otherwise dispose of the Building, which consists of approximately 124,000 square feet of net rentable space located in Grand Rapids, Michigan.

The project is located in a census tract that makes a taxpayer eligible to receive new markets tax credits (NMTC) for making a qualified equity investment into a community development entity (CDE), if the CDE then makes an equity investment or a loan to a qualified active low-income community business and all other criteria of the NMTC are met. During 2011, CapFund CDE Seven, LLC, PNC CDE8, LP, and MMF HH CDE, LLC (collectively, the “Project CDEs”) received a qualified equity investment of $7,600,000, $8,000,000, and $7,000,000, respectively, which they each used to make loans to the Organization (see Note 4). PNC New Markets Investment Partners, LLC, as the single member of the investment fund that owns 99.99 percent of the Project CDEs, is projected to receive new markets tax credits totaling $8,814,000 through 2017 in connection with qualified equity investments made to the Project CDEs. Under the new markets tax credit regulations, the owners of the Project CDEs will be required to recapture the new markets tax credits if, during the seven-year period after the qualified equity investment is made, (i) the Project CDEs fail to qualify as a CDE, (ii) the Project CDEs fail to maintain substantially all of the qualified equity investment invested, or (iii) the Project CDEs make a distribution that is treated as a redemption.

Operations of the Organization are limited to the rental of the Building owned by the Organization.

Basis of Accounting - The Organization maintains its accounting records and prepares its financial statements on an accrual basis, which is in accordance with accounting principles generally accepted in the United States of America.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Classification of Assets and Liabilities - The financial affairs of the Organization generally do not involve a business cycle since the realization of assets and the liquidation of liabilities are usually dependent on the Organization's circumstances. Accordingly, the classification of current assets and current liabilities is not considered appropriate and has been omitted from the balance sheet.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Cash and Cash Equivalents - Cash and cash equivalents consist of cash on hand and all highly liquid investments purchased with an original maturity of three months or less. Cash and cash equivalents consist of cash on hand of $410 and operating and investment pool held at Grand Valley State University of $530,877 as of June 30, 2017. As of June 30, 2016, the balances were $396 and $499,235, respectively.

Cash Concentration - The Organization maintains cash balances at one bank. Accounts are insured by the Federal Deposit Insurance Corporation up to $250,000. As of June 30, 2017 and 2016, the Organization had uninsured deposits totaling approximately $281,000 and $249,000, respectively.

Other Assets - Other assets represent the difference between actual payments received for the building lease compared to the amount recognized based on the accepted straight-line method over the life of the lease.

Capital Assets - Capital assets are recorded at cost and depreciated over estimated useful lives using the straight-line method. Costs of repairs and maintenance and equipment and furnishings with a unit cost of under $5,000 are charged to expense as incurred.

Impairment of Assets - The Organization reviews the recoverability of long-lived assets when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the ability to recover the carrying value of the asset from the expected future pretax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to make estimates of these cash flows related to long-lived assets, as well as other fair value determinations. No impairment of the Organization's property and equipment has occurred.

Deferred Costs - Finance Costs - Finance costs of $594,058, related to obtaining the notes payable (see Note 4), have been capitalized and will be amortized over the term of the loan. These costs are recorded as a reduction in the recorded balance of the outstanding loan. Total accumulated amortization at June 30, 2017 and 2016 was approximately $85,000 and $64,000, respectively.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

As of July 1, 2016, the Organization adopted ASU No. 2015-3, *Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*, that requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction from the carrying amount of that debt liability, consistent with debt discounts. Previously, deferred finance costs were presented as an asset. The new presentation requirements have been applied retrospectively and amounts reported in the consolidated balance sheet have been restated by reducing assets and notes payable by $530,409 as of June 30, 2016. The related amortization is calculated on the straight-line method in the amount of $21,215 per year and is recorded as interest expense. Previously, the amortization was reported as an element of general and administrative within the statement of activities and changes in net assets.

Tax Status - The Organization is a not-for-profit corporation and has received tax-exempt status by the Internal Revenue Service under the provisions of Internal Revenue Code Section 501(c)(3). Net income from activities unrelated to the Organization's tax-exempt purpose is subject to taxation.

Rental Income - Rental income is recognized on a straight-line basis over the term of the operating lease with Grand Valley State University. This varies from the actual rental income as stated in the lease.

Classification of Net Assets - Net assets of the Organization are classified as unrestricted, temporarily restricted, or permanently restricted depending on the presence and characteristics of donor-imposed restrictions limiting the Organization's ability to use or dispose of contributed assets or the economic benefits embodied in those assets.

Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets. The Organization has temporarily restricted net assets due to the fair market value of the ground lease, which is being recognized over the term of the lease. There are no permanently restricted net assets held by the Organization.

Net Assets Released from Restrictions - The amounts released from restriction for the years ended June 30, 2017 and 2016 relate to the rental expense directly tied to the contribution temporarily restricted as to use.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Contributions - Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Contributions with donor-imposed time or purpose restrictions are reported as restricted support. All other contributions are reported as unrestricted support. Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as unrestricted support. Other restricted gifts are reported as restricted support and temporarily or permanently restricted net assets.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including October 27, 2017, which is the date the financial statements were available to be issued.

Upcoming Accounting Change - In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Institution, including required disclosures about the liquidity and availability of resources. The Organization is currently evaluating the impact of the standard and will present the two classes of net assets and add the liquidity footnote, expense matrix, and related disclosures. The new standard is effective for the Foundation's year ending June 30, 2019 and thereafter and must be applied on a retrospective basis.

Note 2 - Contributions Receivable

Contributions receivable have been recorded on behalf of 38 Front Avenue due to the ground lease being set at less than fair market value. The difference between the fair market value of the land being leased and the lease payment of $1 per year for 99 years is recorded as a contribution at ($4,420,000) net present value using a discount rate of 2 percent and will be recognized over the term of the lease:

	2017	2016
Within one year	$ 44,464	$ 44,464
From one to five years	177,857	177,857
Thereafter	3,920,281	3,964,746
Less allowance for net present value discount	(2,264,859)	(2,302,488)
Net contributions receivable	$ 1,877,743	$ 1,884,579

Note 3 - Capital Assets

The cost of capital assets is summarized as follows:

	2017	2016	Depreciable Life - Years
Land improvements	$ 1,746,000	$ 1,746,000	20
Building	38,488,857	38,488,857	40
Total cost	40,234,857	40,234,857	
Less accumulated depreciation	(4,198,084)	(3,148,563)	
Net carrying amount	$ 36,036,773	$ 37,086,294	

Depreciation expense was $1,049,521 for the years ended June 30, 2017 and 2016.

Note 4 - Notes Payable

Notes payable consist of the following at June 30:

	2017	2016
The Organization has a note payable to CapFund CDE Seven, LLC in the amount of $7,448,000 as of June 30, 2017 and 2016. The note is evidenced by a note document and an agreement and bears an annual interest rate of 1.5008 percent. The note is collateralized by the real property assets of the Organization. Interest-only payments totaling $111,780 commenced on September 29, 2011 and are due annually through and including March 1, 2018. On September 29, 2018, a residual repayment in the amount of $152,000 is due. On March 1, 2019 and annually thereafter, accrued interest and principal in the amount of $377,460 are due. The note matures on September 29, 2041, at which time all unpaid principal and interest are due	$ 7,448,000	$ 7,448,000

Note 4 - Notes Payable (Continued)

	2017	2016
The Organization has a note payable to PNC CDE 8, LP in the amount of $8,000,000 as of June 30, 2017 and 2016. The note is evidenced by a note document and an agreement and bears an annual interest rate of 1.4307 percent. The note is collateralized by the real property assets of the Organization. Interest-only payments totaling $114,456 commenced on September 29, 2011 and are due annually through and including March 1, 2020. On March 1, 2021 and annually thereafter, accrued interest and principal in the amount of $410,649 are due. The note matures on September 29, 2041, at which time all unpaid principal and interest are due	$ 8,000,000	$ 8,000,000
The Organization has a note payable to MMF HH CDE, LLC in the amount of $6,825,000 as of June 30, 2017 and 2016. The note is evidenced by a note document and an agreement and bears an annual interest rate of 1.4674 percent. The note is collateralized by the real property assets of the Organization. Interest-only payments totaling $100,150 commenced on September 29, 2011 and are due annually through and including March 1, 2020. On March 1, 2021 and annually thereafter, accrued interest and principal in the amount of $351,778 are due. The note matures on September 29, 2041, at which time all unpaid principal and interest are due	6,825,000	6,825,000

Note 4 - Notes Payable (Continued)

	2017	2016
The Organization received a project loan from Grand Valley State University, its sole member, for $9,182,220 for construction expenditures related to the Building. The note is evidenced by a note document and an agreement and bears an annual interest rate of 2.0 percent. The note is collateralized by the real property assets of the Organization. Interest-only payments totaling $183,644 commenced on March 1, 2013 and are due annually through and including March 1, 2020. On March 1, 2021 and annually thereafter, accrued interest and principal in the amount of $501,974 are due. The note matures on March 1, 2042, at which time all unpaid principal and interest are due	$ 9,182,220	$ 9,182,220
Total	31,455,220	31,455,220
Less deferred finance costs	(509,194)	(530,409)
Long-term portion	$30,946,026	$30,924,811

Minimum principal payments on the notes payable to maturity as of June 30, 2017 are as follows:

Years Ending June 30	Amount
2018	$ -
2019	967,779
2020	1,146,060
2021	1,164,555
2022	1,183,354
Thereafter	26,993,472
Total	$ 31,455,220

Note 5 - Related Party Transactions

Ground Lease - During September 2011, the Organization entered into a 99-year triple-net ground lease with Grand Valley State University, its sole member, for the land upon which the Building is being constructed. Lease payments of $1 are due annually, in advance. The fair market value of the lease has been recognized as a contribution at net present value (see Note 2).

Note 5 - Related Party Transactions (Continued)

Administrative Services - Grand Valley State University provides administrative services for the Organization. Payments of $16,000 are due annually.

Operating Lease - During September 2011, the Organization entered into a 30-year triple net operating lease with Grand Valley State University, its sole member, for exclusive use of the Building. The operating lease commenced on May 1, 2013. Rental payments are due annually, in advance.

Minimum future lease payments to be received on noncancelable leases for the next five years and in the aggregate are as follows:

Years Ending June 30		Amount
2018		$ 866,377
2019		1,339,402
2020		1,711,364
2021		1,728,478
2022		1,745,763
Thereafter		40,251,933
	Total	$ 47,643,317