

ONE ROOF COMMUNITY HOUSING

CONSOLIDATED FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED
DECEMBER 31, 2014

ONE ROOF COMMUNITY HOUSING

CONSOLIDATED FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
One Roof Community Housing
Duluth, Minnesota

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of One Roof Community Housing (a nonprofit organization) and its subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2014, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 opinion.

(Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of One Roof Community Housing and its subsidiaries as of December 31, 2014, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited One Roof Community Housing's 2013 consolidated financial statements, and our report dated May 28, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying information shown on pages 22 through 28 is presented for purposes of additional analysis of the financial statements rather than to present the financial position, activities and changes in net assets, and functional expenses of the individual entities, and it is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2015 on our consideration of One Roof Community Housing's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering One Roof Community Housing's internal control over financial reporting and compliance.

*Mahoney Ulbrich
Christiansen Russ P.A.*

Saint Paul, Minnesota
June 25, 2015

ONE ROOF COMMUNITY HOUSING

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2014
(With Comparative Totals for 2013)

| | 2014 | 2013 |
|--|--------------|--------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 400,805 | \$ 239,632 |
| Cash designated for programs | 679,028 | 924,788 |
| Accounts receivable, net | 564,465 | 283,629 |
| Contributions receivable | 58,623 | 40,125 |
| Loans receivable, current portion | 41,700 | 30,900 |
| Prepaid expenses | 12,257 | 29,542 |
| Properties under development and for sale | 1,805,678 | 1,081,537 |
| Total current assets | 3,562,556 | 2,630,153 |
| Cash restricted for loan programs | 748,029 | 408,094 |
| Loans receivable - net, less current portion | 988,024 | 1,191,524 |
| Leasehold improvements and equipment, net | 55,630 | 48,180 |
| Land held in trust | 3,553,125 | 3,391,425 |
| Total assets | \$ 8,907,364 | \$ 7,669,376 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Current maturities of long-term debt | \$ 685,754 | \$ 792,909 |
| Accounts payable | 75,811 | 117,073 |
| Accrued payroll and related taxes | 215,608 | 178,914 |
| Accrued interest | 5,500 | 5,500 |
| Deferred revenue | 756,832 | 528,021 |
| Committed loans | 84,413 | 17,000 |
| Borrower escrows | 1,776 | 2,392 |
| Total current liabilities | 1,825,694 | 1,641,809 |
| Loans payable - operating | 550,000 | 550,000 |
| Long-term debt, less current maturities | 1,063,768 | 568,242 |
| Total liabilities | 3,439,462 | 2,760,051 |
| Net assets: | | |
| Unrestricted | 604,024 | 508,588 |
| Board designated - operating reserve | 110,000 | 185,000 |
| Board designated - land held in trust | 3,553,125 | 3,391,425 |
| Total unrestricted | 4,267,149 | 4,085,013 |
| Temporarily restricted | 58,623 | - |
| Permanently restricted | 2,075,288 | 1,688,714 |
| Less discount on deferred loans | (933,158) | (864,402) |
| Net permanently restricted | 1,142,130 | 824,312 |
| Total net assets | 5,467,902 | 4,909,325 |
| Total liabilities and net assets | \$ 8,907,364 | \$ 7,669,376 |

See accompanying notes to consolidated financial statements.

ONE ROOF COMMUNITY HOUSING

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

| | 2014 | | | Total | 2013 |
|--|---------------------|------------------------|------------------------|---------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | | |
| Revenues and support: | | | | | |
| Contributions - development | \$ 108,000 | \$ - | \$ - | \$ 108,000 | \$ 67,500 |
| Government grants and contracts - development | 953,766 | - | - | 953,766 | 1,258,012 |
| Sales of homes | 1,042,100 | - | - | 1,042,100 | 1,507,800 |
| Less cost of homes sold | (1,871,550) | - | - | (1,871,550) | (2,499,447) |
| Development fees - single family, net | 232,316 | - | - | 232,316 | 333,865 |
| Development fees - multi-family | 325,000 | - | - | 325,000 | 50,000 |
| Contributions - operating | 170,581 | 58,623 | - | 229,204 | 203,544 |
| Contributions - noncash | 15,298 | - | - | 15,298 | 4,621 |
| Special events | 30,532 | - | - | 30,532 | 40,015 |
| Government grants and contracts - operating | 548,021 | - | - | 548,021 | 343,813 |
| Resale fees | 15,782 | - | - | 15,782 | 12,097 |
| Real estate sales commissions | 88,112 | - | - | 88,112 | 97,175 |
| Land lease revenues | 79,319 | - | - | 79,319 | 72,700 |
| Construction revenues | 4,250 | - | - | 4,250 | 86,666 |
| Interest income | 436 | - | - | 436 | 338 |
| Interest income - loans | 42,182 | - | - | 42,182 | 47,100 |
| Loan fees | 64,399 | - | - | 64,399 | 121,070 |
| Other revenues | 24,605 | - | - | 24,605 | 33,219 |
| Net assets released from restriction | 86,189 | - | (86,189) | - | - |
| Total revenues and support | 1,727,022 | 58,623 | (86,189) | 1,699,456 | 1,446,223 |
| Expenses: | | | | | |
| Community land trust | 211,981 | - | - | 211,981 | 453,641 |
| Education, counseling and homeowner services | 126,428 | - | - | 126,428 | 139,056 |
| Lending services | 307,905 | - | - | 307,905 | 238,015 |
| Neighborhood revitalization | 86,710 | - | - | 86,710 | 72,592 |
| Multi-family development | 242,429 | - | - | 242,429 | 123,336 |
| Total program services, less cost of homes sold | 975,453 | - | - | 975,453 | 1,026,640 |
| Management and general | 370,201 | - | - | 370,201 | 401,487 |
| Fundraising | 106,925 | - | - | 106,925 | 100,832 |
| Total expenses | 1,452,579 | - | - | 1,452,579 | 1,528,959 |
| Operating income (loss) | 274,443 | 58,623 | (86,189) | 246,877 | (82,736) |
| Contributions for loan program | - | - | 80,000 | 80,000 | 65,000 |
| Land cost capitalization | 161,700 | - | - | 161,700 | 190,000 |
| Contributed properties | 70,000 | - | - | 70,000 | 136,000 |
| Forgiveness of debt on NHS office sale | - | - | - | - | 73,474 |
| Loss on sale of NHS office | - | - | - | - | (18,817) |
| Contributions and grants for the Hillside development | 214,000 | - | - | 214,000 | 378,000 |
| Project cost for multi-family developments | (214,000) | - | - | (214,000) | (572,250) |
| Transfers from unrestricted net assets to permanently restricted net assets (see Note 11) | (324,007) | - | 324,007 | - | - |
| Change in net assets | 182,136 | 58,623 | 317,818 | 558,577 | 168,671 |
| Net assets, beginning of year (see Note 11) | 4,085,013 | - | 824,312 | 4,909,325 | 4,740,654 |
| Net assets, end of year | <u>\$ 4,267,149</u> | <u>\$ 58,623</u> | <u>\$ 1,142,130</u> | <u>\$ 5,467,902</u> | <u>\$ 4,909,325</u> |

See accompanying notes to consolidated financial statements.

ONE ROOF COMMUNITY HOUSING

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

| | 2014 | | | | | | | | | | |
|---|-------------------------|--------------------------|---|---------------------|--------------------------------|---------------------------------|------------------------------|---------------------------|-------------------|---------------------|---------------------|
| | Community land trust | Construction services | Education, counseling and homeowner services | Lending services | Neighborhood revitalization | Multi- family development | Total program services | Management and general | Fundraising | Total | 2013 |
| Salaries | \$ 181,120 | \$ 385,768 | \$ 83,915 | \$ 107,158 | \$ 47,761 | \$ 114,886 | \$ 920,608 | \$ 240,974 | \$ 58,155 | \$ 1,219,737 | \$ 1,123,442 |
| Payroll taxes | 19,282 | 67,260 | 6,023 | 7,583 | 3,584 | 8,535 | 112,267 | 28,570 | 4,050 | 144,887 | 122,411 |
| Employee benefits | 26,929 | 55,332 | 12,270 | 16,208 | 4,474 | 16,564 | 131,777 | 32,629 | 6,820 | 171,226 | 146,917 |
| | 227,331 | 508,360 | 102,208 | 130,949 | 55,819 | 139,985 | 1,164,652 | 302,173 | 69,025 | 1,535,850 | 1,392,770 |
| Professional fees | 22,485 | - | 2,453 | 13,977 | 847 | 3,406 | 43,168 | 11,216 | 2,534 | 56,918 | 67,274 |
| Office supplies | 5,141 | 5,104 | 1,812 | 3,113 | 582 | 2,337 | 18,089 | 4,087 | 1,655 | 23,831 | 26,090 |
| Postage | 1,876 | - | 837 | 1,120 | 279 | 1,135 | 5,247 | 1,646 | 11,643 | 18,536 | 15,549 |
| Occupancy and utilities | 5,651 | 12,365 | 2,534 | 3,316 | 893 | 3,467 | 28,226 | 5,286 | 1,392 | 34,904 | 36,359 |
| Equipment expense | 8,200 | 16,420 | 3,595 | 8,378 | 1,584 | 4,910 | 43,087 | 406 | 1,978 | 45,471 | 29,992 |
| Telephone | 2,426 | 2,213 | 1,084 | 1,428 | 373 | 1,479 | 9,003 | 3,940 | 595 | 13,538 | 13,094 |
| Depreciation | 4,054 | 11,070 | 1,833 | 2,369 | 625 | 2,508 | 22,459 | 5,772 | 1,010 | 29,241 | 28,930 |
| Travel and training | 8,648 | 2,535 | 3,083 | 2,360 | 3,643 | 3,469 | 23,738 | 3,079 | 2,355 | 29,172 | 37,486 |
| Bad debt expense | - | - | - | 30,435 | - | - | 30,435 | - | - | 30,435 | - |
| Property acquisition | 516,994 | - | - | - | - | - | 516,994 | - | - | 516,994 | 925,646 |
| Construction costs | 922,916 | 563,749 | - | - | - | - | 1,486,665 | - | - | 1,486,665 | 1,725,343 |
| Other development costs | 297,507 | - | - | - | 15,000 | 288,591 | 601,098 | - | - | 601,098 | 815,559 |
| Funds returned to government agency | - | - | - | 5,433 | - | - | 5,433 | - | - | 5,433 | 10,780 |
| Homeowner support | 20,125 | - | 3,111 | 5,444 | 20 | 80 | 28,780 | 87 | 32 | 28,899 | 45,635 |
| Insurance | 6,782 | 22,043 | 1,957 | 5,746 | 667 | 2,674 | 39,869 | 2,909 | 1,083 | 43,861 | 48,493 |
| Interest / bank fees | 5,875 | - | 168 | 12,638 | 2 | 7 | 18,690 | 15,134 | 618 | 34,442 | 42,777 |
| Marketing | 11,316 | 4,514 | 383 | 495 | 654 | 524 | 17,886 | 773 | 1,737 | 20,396 | 25,493 |
| Membership | 5,469 | - | 772 | 997 | 263 | 1,056 | 8,557 | 1,147 | 425 | 10,129 | 13,436 |
| Board | 3,288 | - | 419 | 542 | 143 | 573 | 4,965 | 834 | 231 | 6,030 | 691 |
| Discount on new deferred loans | - | - | - | 78,941 | - | - | 78,941 | - | - | 78,941 | 36,730 |
| Special event expenses | 805 | - | 47 | 58 | 3,813 | 52 | 4,775 | 393 | 10,245 | 15,413 | 23,951 |
| Other | 393 | - | 132 | 166 | 1,503 | 176 | 2,370 | 11,319 | 367 | 14,056 | 61,674 |
| Total expenses | 2,077,282 | 1,148,373 | 126,428 | 307,905 | 86,710 | 456,429 | 4,203,127 | 370,201 | 106,925 | 4,680,253 | 5,423,752 |
| Reclassification | 1,148,373 | (1,148,373) | - | - | - | - | - | - | - | - | - |
| Expenses not included in operating income (loss) | - | - | - | - | - | (214,000) | (214,000) | - | - | (214,000) | (572,250) |
| Cost of homes sold | (1,871,550) | - | - | - | - | - | (1,871,550) | - | - | (1,871,550) | (2,548,902) |
| Elimination of construction costs paid to Common Ground by One Roof | (1,303,824) | - | - | - | - | - | (1,303,824) | - | - | (1,303,824) | (963,641) |
| Land cost capitalization | 161,700 | - | - | - | - | - | 161,700 | - | - | 161,700 | 190,000 |
| | <u>\$ 211,981</u> | <u>\$ -</u> | <u>\$ 126,428</u> | <u>\$ 307,905</u> | <u>\$ 86,710</u> | <u>\$ 242,429</u> | <u>\$ 975,453</u> | <u>\$ 370,201</u> | <u>\$ 106,925</u> | <u>\$ 1,452,579</u> | <u>\$ 1,528,959</u> |
| % of expense before transferring cost of homes sold and land cost capitalized: | | | | | | | | | | | |
| 2014 | 61% | 0% | 4% | 10% | 3% | 8% | 85% | 12% | 3% | 100% | |
| 2013 | 72% | 0% | 4% | 6% | 2% | 3% | 87% | 10% | 3% | 100% | |

See accompanying notes to consolidated financial statements.

ONE ROOF COMMUNITY HOUSING

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

Increase (Decrease) in Cash

| | 2014 | 2013 |
|--|--------------|--------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 558,577 | \$ 168,671 |
| Adjustments to reconcile the change in net assets to net cash from operating activities: | | |
| Depreciation | 29,241 | 28,930 |
| Contributions for loan program | (80,000) | (65,000) |
| Contributed properties and equipment | (84,100) | (136,000) |
| Discount on new deferred loans | 78,941 | 36,730 |
| Amortization of discount on deferred loans receivable | (10,185) | (5,696) |
| Bad debt expense | 30,435 | - |
| Forgiveness of debt on NHS office sale | - | (73,474) |
| Loss on sale of NHS office | - | 18,817 |
| Changes in operating assets and liabilities: | | |
| Receivables | (299,334) | 68,547 |
| Prepaid expenses | 17,285 | (5,673) |
| Properties under development and for sale | (599,672) | 470,739 |
| Land held in trust | (161,700) | (190,000) |
| Accounts payable | (41,262) | (6,481) |
| Accrued expenses | 36,694 | 18,388 |
| Deferred revenue | 228,811 | (242,433) |
| Borrower escrows | (616) | (12,438) |
| Net cash from operating activities | (296,885) | 73,627 |
| Cash flows from investing activities: | | |
| Decrease (increase) in cash restricted for loan programs | (339,935) | 170,766 |
| Issuance of loans receivable | (28,747) | (281,733) |
| Collection of loans receivable | 135,200 | 330,175 |
| Proceeds on sale of NHS office | - | 85,736 |
| Purchase of equipment | (22,591) | (20,163) |
| Net cash from investing activities | (256,073) | 284,781 |
| Cash flows from financing activities: | | |
| Contributions for loan program | 80,000 | 65,000 |
| Proceeds from issuance of debt | 622,674 | 44,400 |
| Repayment of debt | (234,303) | (541,013) |
| Net cash from financing activities | 468,371 | (431,613) |
| Net increase (decrease) in cash | (84,587) | (73,205) |
| Cash, beginning of year | 1,164,420 | 1,237,625 |
| Cash, end of year | \$ 1,079,833 | \$ 1,164,420 |
| Reconciliation of cash to statement of financial position | | |
| Cash | \$ 400,805 | \$ 239,632 |
| Cash designated for programs | 679,028 | 924,788 |
| | \$ 1,079,833 | \$ 1,164,420 |
| Cash paid for interest expense | \$ 51,062 | \$ 66,114 |
| Noncash investing activities: | | |
| Contributed properties and equipment | \$ 84,100 | \$ 136,000 |

See accompanying notes to consolidated financial statements.

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

1. ORGANIZATION

One Roof Community Housing and subsidiaries (One Roof) is a nonprofit, membership and community based organization whose mission statement is “*enriching lives and communities, one home at a time*”. One Roof makes home a better place by helping lower income people find and fix their homes, and by providing housing development services to the community. This work results in better places for lower income people in the community to live and stronger neighborhoods.

One Roof employs the following lines of business as it works to make a home a better place:

Homebuyer Education and Counseling: Homestretch classes and pre/post purchase counseling and education to ensure that lower income homeowners are prepared to be successful in their homeownership endeavors. Homestretch classes are offered 14 times per year.

Single Family Home Lending: One Roof provides a variety of below market rate home renovation lending products to revitalize our community’s aging housing stock and ensure the success of our lower income homeowners. One Roof also provides down payment and closing cost assistance loans for lower income buyers who have attended Homebuyer Education classes and are purchasing in Duluth.

Multifamily Housing Rehabilitation Lending: One Roof provides access to lending products to revitalize our community’s aging housing stock and provide quality, affordable rental housing for lower income households.

Community Land Trust (CLT) Program: One Roof develops CLT homes for purchase by low-moderate income households to ensure affordable homeownership opportunities will exist in our community for future generations. Due to resale restrictions in One Roof’s Land Lease, whenever CLT homes are sold in the future, they will be affordable to and available exclusively for low-to-moderate income households, ensuring a supply of permanently-affordable homes in One Roof communities. The Resale Formula also provides for a percentage share in the appreciation of the property (25%) for the homeowner. Thus, CLT buyers will be able to build equity and receive a share in the appreciation of their homes when sold, AND the homes will be affordable to the next low-to-moderate income buyer.

Multifamily Housing Development Services: One Roof provides turn-key housing development services for affordable rental housing owners, managers and service providers to provide affordable rental housing opportunities and prevent homelessness of lower income households in One Roof communities.

The primary sources of revenue and support are contributions, government grants, sales of homes and earned fees.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The consolidated financial statements include One Roof Community Housing and its wholly owned subsidiaries: One Roof Community Realty, LLC; One Roof Community Lending (Neighborhood Housing Services (NHS)); and Common Ground Deconstruction Service and Reuse Center (Common Ground). Significant inter-company accounts and transactions have been eliminated.

One Roof Community Realty, LLC was formed to sell houses One Roof Community Housing develops. One Roof Community Lending conducts down payment and renovation loan services. Common Ground is the general contractor for One Roof's houses and also provides construction services to third parties.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

The most sensitive estimates affecting the financial statements are the carrying value of properties under development and for sale, the allowance for loan losses, discount on deferred loans and functional expense allocations.

Financial Statement Presentation - The accompanying financial statements have been prepared using the accrual basis of accounting.

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

- Unrestricted net assets are not restricted by donors or the donor-imposed restrictions have expired. Unrestricted net assets are available for programs and supporting services at the discretion of management and the board of directors.
- Temporarily restricted net assets arise from contributions that are restricted by donors for specific purposes or time periods.
- Permanently restricted net assets consist primarily of government sponsored loan programs that the donor has stipulated must be maintained in perpetuity. These programs include support and revenues designated to provide loans and grants, and to purchase and develop affordable housing. A significant portion of these assets would be returned to government agencies if the programs were to terminate.

Cash Equivalents - Cash equivalents consist of financial instruments with a maturity of less than three months at the time of purchase. For purposes of the statement of cash flows, cash equivalents do not include cash restricted for loan programs.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations - One Roof places its cash with several financial institutions. At times the amount on deposit exceeds the insured limit of the institutions and exposes One Roof to a credit risk. Management reviews the credit worthiness of financial institutions on a regular basis. One Roof has not experienced any losses as a result of these deposits.

Accounts, Grants and Contributions Receivable - Accounts, grants and contributions receivable are stated at the amount management expects to collect. Accounts and grants receivable primarily consist of amounts due from government agencies for loan programs and multi-family project developer fees.

Management reviews outstanding balances periodically and establishes an allowance based on expected collections. Receivables are written off as a charge to the allowance when, in management's estimation, it is probable that the receivable is worthless. The allowance for doubtful accounts receivable was \$29,308 at December 31, 2014 and 2013. Management determined that no allowance was needed for grants and contributions receivable since collection is expected.

Loans Receivable and Related Discount - Amortizing loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses. Loans receivable and committed loans (undisbursed loan funds) are recognized at the time a loan is closed. As loan funds are disbursed, committed loans are reduced. Interest rates range from 0% to 6.5%. Terms range from 10 to 50 years. The loans are secured by real estate mortgages.

Deferred loans are made to homeowners to assist with home acquisition or improvements. These loans are noninterest bearing. These loans are recorded at the loan amount net of a discount to reflect the present value of expected cash flows. The discount is determined using an interest rate of 5% and 30 year term, resulting in a blended term of 25 and 24 years as of December 31, 2014 and 2013, respectively. The loans are due upon the earlier of sale of the property or 30 years from the origination date. The loans are secured by real estate mortgages.

Due on sale loans are noninterest bearing and due upon sale of the property. This program has ended and no additional loans will be issued. These loans have been recorded net of a discount to reflect the present value of expected cash flows using an interest rate of 5% and a 30 year term to reflect the fair value of the loans as of December 31, 2014 and 2013.

In addition to amortizing, deferred, and due on sale loans, One Roof issues loans (homeowner forgivable grants) that will be forgiven if the homebuyer remains the owner and resides in the property for the term of the contract. These loans are expensed when closed since repayment is unlikely. Recoveries of these forgivable loans are recorded as revenue when received.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest on amortizing loans is calculated using the simple interest method on the principal amount outstanding. Interest is recorded when received.

Allowance for Loan Losses - The allowance for loan losses is established to offset potential or expected losses on loans. The allowance for loan losses is maintained at a level that, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, based on the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, economic conditions and other risks inherent in the portfolio. Allowances for impaired loans are generally determined based on collateral values. The allowance is increased by a provision for loan losses, which is charged to expense, and reduced by charge-offs, net of recoveries. Loans are written off as a charge to the allowance when, in management's estimation, it is probable that the receivable is worthless. The allowance for loan losses was \$85,289 and \$58,909 at December 31, 2014 and 2013, respectively.

Properties Under Development and For Sale - Development costs represent costs incurred for housing development projects. Costs consist primarily of acquisition (including land), construction and other costs incurred to date. The land cost is transferred to Land Held in Trust at the time the property is sold. Holding costs incurred after development is substantially complete are charged to expense.

Leasehold Improvements and Equipment - Leasehold improvements and equipment are recorded at cost or fair value on the date of contribution. Leasehold improvements are amortized using the straight line method over 5 years. Equipment is depreciated using the straight line method over the estimated useful lives of 3 to 7 years. The cost of maintenance and repairs is expensed as incurred and significant renewals and betterments are capitalized.

Land Held in Trust - Land has been acquired through purchase, bargain purchase or donation. Land purchased at market value is recorded at cost. Land acquired by bargain purchase or donation is recorded at fair market value on the date received.

Investment in LLC - One Roof has a 50% interest in Hillside Development Duluth, LLC (the LLC). The LLC is the managing general partner of Hillside Apartments Duluth, LLLP (Note 5). One Roof is not the controlling general partner. The general partnership interest is recorded at cost (\$0 as of December 31, 2014 and 2013).

Impairment - Management assesses long-lived assets for impairment when conditions warrant. No impairment was recognized in 2014 or 2013.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Real Estate Revenues - Revenue is recognized in the period the service is performed.

Sales of real estate are recorded at the time of closing of the sale, when title to and possession of the property are transferred to the buyer. Cost of sales is based on direct costs. Closing costs and sales commissions are specifically identified with the house sold.

Construction revenues are recorded using the percentage of completion method, based on the costs incurred to date as compared to estimated total costs. Billings in excess of costs represents amounts billed in excess of costs incurred. Costs in excess of billings represent costs incurred and not yet billed. Intercompany construction revenues and profits are eliminated.

Developer fees from home sales are recognized as revenue when the house is sold. Developer fees from multi-family developments are recognized as revenue when earned.

One Roof Community Realty provides real estate brokerage services. Revenues are recorded at the time of closing of the sale.

Loan Fees - Loan origination fees are recognized as revenue upon closing of the loan because incremental direct costs incurred on each loan exceed the fees charged.

Contributions - Contributions are recognized when the donor makes an unconditional promise to give. Contributions are recorded when received as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions are reported as temporarily restricted support and then reclassified to unrestricted net assets upon expiration of the time restriction or when purpose restrictions have been met. Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized.

Contributed Services - Contributed services are recorded as contributions, at their fair value, when the service creates or enhances a non-financial asset or the service requires specialized skills that would need to be purchased if not provided by donation. No contributed services were recognized in 2014 or 2013.

Contributed Materials - Contributed materials are recorded as contributions, when received, at their fair value. Contributed real estate valued at \$70,000, contributed software of \$14,100 and construction materials of \$1,198 were recognized in 2014. Contributed real estate valued at \$136,000 and construction materials of \$4,621 were recognized in 2013.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government Grants - Government grants received for property acquisition and renovation are recorded as deferred revenue until the time of sale. At the time of sale the funds are recorded as grant revenue.

Government grants for operating programs are either expense reimbursement grants or general operating grants. For expense reimbursement grants, revenue is recorded as expenses are incurred and billed to the grantor. General operating grant revenue is recorded when the grant is received or earned, depending on conditions specified in the grant. Funds received but not yet earned are recorded as deferred revenue.

Government grants for loan programs are recorded when received. Grants for revolving loan funds are considered permanently restricted net assets. Interest and fees received from loan programs are used to defray administration expenses.

Principal repayments are returned to the loan program or the funder. Repayments to the funder are reported as “funds returned to government agency”.

Recoverable grants are repayable under certain conditions. Accordingly, these grants are reported as debt until the conditions are met and they are forgiven.

Forgivable Loans - Forgivable loans are recorded as long-term debt and recorded as revenue when the conditions are met. Forgivable loan agreements state the lender will forgive the loan on a specified date upon compliance with the terms of the agreement.

Functional Expenses - The majority of expenses can be directly identified with the program or supporting services to which they relate and are charged accordingly. Other expenses have been allocated based on staff time spent in each category. The time allocations are based on management’s estimates.

Income Taxes - One Roof is classified as a tax-exempt organization under Minnesota Statute 290.05 and Section 501(c)(3) of the Internal Revenue Code, is exempt from private foundation status under Section 509(a)(1) of the Internal Revenue Code, and is subject to income taxes only on net unrelated business income.

Common Ground Deconstruction Service and Reuse Center and One Roof Community Realty, LLC are single member LLC’s. The LLC’s (limited liability companies) are not taxable entities and are included on the income tax return of One Roof.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

One Roof Community Lending is classified as a 501(c)(3) tax-exempt organization, and is subject to income taxes only on net unrelated business income. The activity of One Roof Community Lending is included in the One Roof income tax return.

One Roof is not currently under examination by any taxing jurisdiction. Federal and state tax authorities generally have the right to examine the current and previous three years of income tax returns. Management believes the entities did not have any unrelated business income or uncertain tax positions in 2014 or 2013.

Prior Year Summarized Information - The financial statements include certain prior year summarized information in total but neither by net asset class nor by functionalized expenses. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with One Roof's financial statements for the year ended December 31, 2013.

Reclassifications - Reclassifications were made to the 2013 financial statements to be consistent with the current year financial statements. These reclassifications did not affect net assets or the change in net assets.

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable as of December 31, 2014, are due in 2015.

4. LOANS RECEIVABLE

Loans receivable by portfolio consist of the following:

| | 2014 | 2013 |
|---|------------|--------------|
| Amortizing mortgages | \$ 697,482 | \$ 766,402 |
| Deferred loans | 1,208,706 | 1,222,350 |
| Due on sale loans | 141,983 | 156,983 |
| | <hr/> | <hr/> |
| Total loans receivable | 2,048,171 | 2,145,735 |
| Less discount on deferred and due on sale loans | (933,158) | (864,402) |
| Less allowance for loan losses | (85,289) | (58,909) |
| | <hr/> | <hr/> |
| Total loans receivable, net | 1,029,724 | 1,222,424 |
| Less current portion | (41,700) | (30,900) |
| | <hr/> | <hr/> |
| Noncurrent portion | \$ 988,024 | \$ 1,191,524 |

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

4. LOANS RECEIVABLE (Continued)

Activity in the allowance for loan losses was as follows:

| | 2014 | 2013 |
|----------------------|-----------|------------|
| Beginning balance | \$ 58,909 | \$ 105,675 |
| Loans charged off | (4,055) | (46,766) |
| Provision for losses | 30,435 | - |
| Ending balance | \$ 85,289 | \$ 58,909 |

A summary of the loans receivable aging by portfolio at December 31, 2014 follows:

| | Amortizing mortgages | Deferred loans | Due on sale loans | Total |
|-----------------|-------------------------|-------------------|----------------------|--------------|
| Current | \$ 634,482 | \$ - | \$ - | \$ 634,482 |
| 31 - 60 days | 33,319 | - | - | 33,319 |
| 61 - 90 days | - | - | - | - |
| Over 90 days | 29,681 | - | - | 29,681 |
| Due on maturity | - | 1,208,706 | 141,983 | 1,350,689 |
| Total | \$ 697,482 | \$ 1,208,706 | \$ 141,983 | \$ 2,048,171 |

A summary of the allowance for loan losses by portfolio at December 31, 2014 follows:

| | Amortizing mortgages | Deferred loans | Due on sale loans | Total |
|----------------------|-------------------------|-------------------|----------------------|-----------|
| Beginning balance | \$ 58,909 | \$ - | \$ - | \$ 58,909 |
| Loans charged off | (4,055) | - | - | (4,055) |
| Provision for losses | 30,435 | - | - | 30,435 |
| Ending balance | \$ 85,289 | \$ - | \$ - | \$ 85,289 |

Other information as of December 31, 2014:

- Management has evaluated loans individually and has determined that there are no impaired loans.
- There are no loans on non-accrual status.
- There were no significant changes in accounting policies used to measure the allowance for loan losses.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

5. **LOANS RECEIVABLE - OTHER**

The Hillside Apartments Duluth, LLLP - permanent loan commitment for \$819,457 is payable in December 2045 with interest at 3%. At December 31, 2014 and 2013, \$703,356 and \$428,000 have been advanced, respectively. The loan is funded by contributions and grants from the Federal Home Loan Bank, NeighborWorks America, Minnesota Power and LISC. An allowance has been recorded for the full amount of the loan due to the likelihood that the loan will not be collected. The allowance is recorded in project costs on Page 4. Interest, due at maturity, will be recorded as revenue when received.

6. **PROPERTIES UNDER DEVELOPMENT AND FOR SALE**

Properties under development and for sale consist of the following:

| | 2014 | 2013 |
|--|---------------------|---------------------|
| Houses under development and for sale – 16 in 2014 and 12 in 2013 | \$ 1,745,728 | \$ 1,022,845 |
| Vacant lots held for development – 5 in 2014 and 5 in 2013 | 59,950 | 58,692 |
| | <u>\$ 1,805,678</u> | <u>\$ 1,081,537</u> |

7. **LEASEHOLD IMPROVEMENTS AND EQUIPMENT**

Leasehold improvements and equipment consists of the following:

| | 2014 | 2013 |
|-------------------------------|------------------|------------------|
| Equipment | \$ 173,779 | \$ 169,175 |
| Leasehold improvements | 5,100 | - |
| Less accumulated depreciation | <u>(123,249)</u> | <u>(120,995)</u> |
| | <u>\$ 55,630</u> | <u>\$ 48,180</u> |

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

8. LAND HELD IN TRUST

One Roof maintains title to the land underlying the land trust homes. The homeowner mortgages the physical housing structure. One Roof leases the land to the homeowner for a monthly fee for a 99 year period.

It is One Roof's intention to retain the land in perpetuity. A two-thirds vote from One Roof's board is required to sell land when there is a land trust home on it.

One Roof owns 257 lots at December 31, 2014 and 239 at December 31, 2013.

9. DEBT

Debt consists of the following:

| | 2014 | 2013 |
|--------------------------------|--------------|--------------|
| Greater Minnesota Housing Fund | \$ 977,426 | \$ 814,909 |
| MHFA CRV Funds | 460,000 | 460,000 |
| LISC recoverable grants | 68,000 | 68,000 |
| City of Duluth HIF | 218,242 | 218,242 |
| City of Duluth | 50,000 | - |
| U.S. Bancorp CDC | 250,000 | 250,000 |
| Wells Fargo CDC | 100,000 | 100,000 |
| North Shore Bank | 175,854 | - |
| | \$ 2,299,522 | \$ 1,911,151 |

Debt is presented on the statement of financial position as follows:

| | | |
|---|--------------|--------------|
| Current maturities of long-term debt | \$ 685,754 | \$ 792,909 |
| Loans payable – operating | 550,000 | 550,000 |
| Long-term debt, less current maturities | 1,063,768 | 568,242 |
| | \$ 2,299,522 | \$ 1,911,151 |

Greater Minnesota Housing Fund (GMHF) - One Roof has funding commitments from the GMHF. These commitments are summarized below:

- Originally a \$1,000,000 commitment with advances bearing interest at 2%. The commitment is for single-family foreclosure program financing expiring August 9, 2016. Advances and related interest are due upon the sale of the related properties. Secured by the properties. The outstanding balance was \$427,426 at December 31, 2014 and \$264,909 at December 31, 2013.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

9. DEBT (Continued)

- \$700,000 commitment for working capital and investment/project capital. Advances bear interest at 4%. \$70,000 is due May 23, 2016, \$140,000 is due May 23, 2017, the balance is due May 23, 2018. Unsecured. The commitment requires One Roof to comply with certain covenants. The outstanding balance was \$550,000 at December 31, 2014 and 2013.

MHFA CRV funds - \$620,000 note payable to the Minnesota Housing Finance Agency (MHFA) under the Community Revitalization Fund Program (CRV). The loan repayment date is in July 2015.

- \$230,000 is for construction financing with interest at 2%, unsecured.
- \$230,000 is for construction loans without interest, unsecured.
- \$160,000 is for affordability gap financing without interest and secured by the real estate. Upon loan closing these loans will be assigned to MHFA.

LISC recoverable grants - One Roof has recoverable grants without interest, as summarized below:

- \$20,000 recoverable grant for the 115 East 7th Street property due on sale of the property or July 1, 2016. Secured by the property. The outstanding balance was \$20,000 at December 31, 2014 and 2013.
- \$48,000 recoverable grant for the 52nd Avenue East and Lester Street property due on sale of the property or July 1, 2016. Secured by the property. The outstanding balance was \$48,000 at December 31, 2014 and 2013.

City of Duluth HIF - Mortgages payable to the City of Duluth under the Housing Investment Fund (HIF) program without interest. The mortgages are secured by the related properties.

- \$105,000 used for new home construction due on December 16, 2036. The mortgage may be forgiven if the conditions are met.
- \$50,000 used for new home construction due December 16, 2035.
- \$63,242 used for an exterior loan fund program due May 10, 2036.

City of Duluth - \$50,000 note payable jointly with Center City Housing Corp. to the City of Duluth with interest at the applicable federal rate as of the date of advance, compounded quarterly. Proceeds are to be used for predevelopment expenses for the Gateway Tower Apartments (Gateway) redevelopment project. The note is due at the earlier of the closing of the last phase of the development of Gateway or December 31, 2015. Unsecured.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

9. DEBT (Continued)

U.S. Bancorp CDC - \$250,000 note payable to U.S. Bancorp Community Development Corporation (CDC) under the EQ2 program with interest at 4%. Proceeds are to be used for loan funding. The note has an initial maturity date in August 2017, but may be extended for up to 5 additional one year periods. Unsecured.

Wells Fargo CDC - \$100,000 note payable to Wells Fargo Community Development Corporation (CDC) under the EQ2 program with interest at 2%. Proceeds are to be used for loan funding. The note has an initial maturity date in October 2016, but may be extended an additional two years. Unsecured.

North Shore Bank - \$450,000 commitment to provide financing through July 31, 2015. Individual loans provided under this commitment have a 9 month term and bear interest at the prime rate plus 1%, not to be less than 5%. The loans are secured by the related property. Interest only payments are required until the principal is due at the maturity for the individual loans. 3 individual loans are outstanding at December 31, 2014.

Northland Foundation line of credit (serviced by North Shore Bank of Commerce) - \$75,000 unsecured revolving line of credit with interest at 4.75% maturing in March 30, 2016. There were no advances at December 31, 2014 and 2013.

Future maturities of debt are as follows:

| | |
|------------|---------------------|
| 2015 | \$ 685,754 |
| 2016 | 665,526 |
| 2017 | 390,000 |
| 2018 | 340,000 |
| 2019 | - |
| Thereafter | 218,242 |
| | <u>\$ 2,299,522</u> |

Interest expense was \$51,062 in 2014 and \$66,114 in 2013, of which \$18,959 and \$24,654 was included in the cost of homes sold.

10. LEASE COMMITMENTS

One Roof leases office space and office equipment under operating lease agreements. Rent expense was \$34,904 in 2014 and \$32,891 in 2013. Future minimum lease payments are \$15,856 for 2015.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

11. NET ASSETS

Temporarily restricted net assets result from restrictions on contributions received from donors. The restrictions expire when the stated purpose has been met. Temporarily restricted net assets at December 31, 2014 consist of time restricted contributions receivable. There were no temporarily restricted net assets at December 31, 2013.

Permanently restricted net assets consist of the following:

| | <u>2014</u> | <u>2013</u> |
|---------------------------------|---------------------|---------------------|
| NeighborWorks America (NW) fund | \$ 1,626,983 | \$ 1,234,976 |
| CDBG fund City of Duluth | 443,305 | 448,738 |
| Homeowner relief loan fund | <u>5,000</u> | <u>5,000</u> |
| | <u>\$ 2,075,288</u> | <u>\$ 1,688,714</u> |

Permanently restricted net assets consist of revolving loan funds. One Roof completed a reconciliation and negotiation of NW net assets from the 2012 NHS merger during 2014. As a result, an adjustment of \$324,007 was recorded to reclassify unrestricted net assets to permanently restricted net assets. The adjustment had no effect on total net assets.

The permanently restricted loan funds are offset by a discount of deferred loans of \$933,158 and \$864,402 at December 31, 2014 and 2013, respectively. The 2013 net assets, as originally presented, were reclassified to present the discount as a reduction of permanently restricted net assets. Previously the discount was presented as a reduction of unrestricted net assets.

Permanently restricted net assets may be released as loans are determined to be uncollectible, amounts are returned to the funder, or the funder releases the funds for operating purposes. Permanently restricted net assets would be returned to government agencies and funders if the programs were to terminate operations.

The Board has designated a portion of net assets for an operating reserve and for land held in trust.

12. RETIREMENT PLAN

One Roof has a 401(k) retirement savings plan. The Plan covers all eligible employees. The employer contribution is at the discretion of the Board of Directors. Contributions to the plan were \$63,503 in 2014 and \$44,760 in 2013.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

13. COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS

Amounts received from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed grant costs may constitute a liability. The amount, if any, of costs which may be disallowed by the grantor agencies will be recognized in the year determined.

The HOME funds grants state that upon construction/rehabilitation of each home, One Roof will execute a mortgage lien in favor of the City of Duluth. The liens will be in force for 10 years after completion of the home. Failure to comply with grant requirements could result in mandatory repayment of grant funds.

One Roof has insurance of \$250,000 for employee dishonesty. Additionally, One Roof has \$1,000,000 of directors and officer liability insurance, plus \$1,000,000 of employment practices liability insurance coverage.

One Roof received 93% and 85% of government grants from four agencies during 2014 and 2013, respectively.

One Roof received 42% and 61% of contributions from two contributors during 2014 and 2013, respectively.

One Roof received a \$300,000 grant from the Federal Home Loan Bank for the Hillside Apartments Duluth, LLLP property. This grant was used to fund a portion of the loan between One Roof and the LLLP (Note 5). The grant requires the property to be maintained as affordable housing for a period of 15 years through 2030. If an event of default occurs, the full amount of the grant must be repaid. Management believes there will be no event of default, therefore the grant has been recorded in unrestricted net assets.

During 2012, One Roof sold loans with an outstanding balance of \$191,435. If one of the loans becomes 90 days delinquent, One Roof must repurchase the loan or substitute another loan in its place. Once a loan has 36 consecutive months of on-time payments, One Roof has no responsibility to replace the loan. Additionally, the buyer held back 10% of the sale proceeds to be used as security for any losses. No loans have been repurchased as of December 31, 2014.

One Roof is responsible for warranty work related to rehabilitation performed on the properties that have been sold. Warranty periods are typically 10 years for structural items, 2 years for mechanical items and 1 year for workmanship items. Management feels that warranty costs have not been significant in the past and does not expect warranty cost to be significant. No provision for possible warranty costs has been recorded in 2014 or 2013.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

14. TRANSACTIONS WITH AFFILIATES

One Roof and Center City Housing Corp. (Center City), an unrelated Minnesota nonprofit corporation, are members of the managing general partner (the LLC) of Hillside Apartments Duluth, LLLP (the LLLP).

One Roof has made loans to the LLLP as described in Note 5.

One Roof has a development fee agreement with the LLLP and Center City which states that One Roof will receive 50% of the developer fee. The developer fee of up to \$1,362,500 is for services performed in the development of the apartments. One Roof recorded development fee revenue of \$325,000 and \$50,000 in 2014 and 2013, respectively. At December 31, 2014, \$325,000 of this development fee is recorded in accounts receivable.

One Roof made a \$144,250 payment at closing for the land purchase of the LLLP which One Roof expensed in 2013.

One Roof has, along with Center City, provided guarantees to the LLLP's investors as to the tax credits and other benefits to be derived from the property and guaranteed the funding of operating deficits incurred prior to expiration of fifteen years from the date of achievement of Underwritten Operations and other obligations set by the Partnership Agreement. Management expects no significant impact from these guarantees. Accordingly, no guaranty liability has been recorded.

One Roof has the right to withdraw from the LLC after lien free construction completion of the project. At that time, One Roof may transfer its membership interest, and assign its mortgage loans and obligations under the guarantees noted above to Center City.

15. SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 25, 2015, the date on which the financial statements were made available for issue, and identified no significant events or transactions to disclose.

SUPPLEMENTARY INFORMATION

ONE ROOF COMMUNITY HOUSING

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2014

| | One Roof | Common Ground | Eliminations | Total |
|--|--------------|------------------|--------------|--------------|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash | \$ 347,800 | \$ 53,005 | \$ - | \$ 400,805 |
| Cash designated for programs | 679,473 | - | (445) | 679,028 |
| Accounts receivable, net | 564,195 | 270 | - | 564,465 |
| Contributions receivable | 58,623 | - | - | 58,623 |
| Due from other division | 286,340 | 147,612 | (433,952) | - |
| Loans receivable, current portion | 41,700 | - | - | 41,700 |
| Prepaid expenses | 3,656 | 8,601 | - | 12,257 |
| Costs in excess of billings | - | 14,000 | (14,000) | - |
| Properties under development and for sale | 1,916,143 | - | (110,465) | 1,805,678 |
| Total current assets | 3,897,930 | 223,488 | (558,862) | 3,562,556 |
| Cash restricted for loan programs | 748,029 | - | - | 748,029 |
| Loans receivable - net, less current portion | 988,024 | - | - | 988,024 |
| Leasehold improvements and equipment, net | 37,857 | 17,773 | - | 55,630 |
| Land held in trust | 3,553,125 | - | - | 3,553,125 |
| Total assets | \$ 9,224,965 | \$ 241,261 | \$ (558,862) | \$ 8,907,364 |
| LIABILITIES AND NET ASSETS | | | | |
| Current liabilities: | | | | |
| Current maturities of long-term debt | \$ 685,754 | \$ - | \$ - | \$ 685,754 |
| Accounts payable | 41,230 | 37,729 | (3,148) | 75,811 |
| Accrued payroll and related taxes | 167,319 | 48,289 | - | 215,608 |
| Accrued interest | 5,500 | - | - | 5,500 |
| Deferred revenue | 756,832 | - | - | 756,832 |
| Committed loans | 84,413 | - | - | 84,413 |
| Borrower escrows | 1,776 | - | - | 1,776 |
| Due to other division | 147,612 | 283,637 | (431,249) | - |
| Total current liabilities | 1,890,436 | 369,655 | (434,397) | 1,825,694 |
| Loans payable - operating | 550,000 | - | - | 550,000 |
| Long-term debt, less current maturities | 1,063,768 | - | - | 1,063,768 |
| Total liabilities | 3,504,204 | 369,655 | (434,397) | 3,439,462 |
| Net assets: | | | | |
| Unrestricted | 856,883 | (128,394) | (124,465) | 604,024 |
| Board designated - operating reserve | 110,000 | - | - | 110,000 |
| Board designated - land held in trust | 3,553,125 | - | - | 3,553,125 |
| Total unrestricted | 4,520,008 | (128,394) | (124,465) | 4,267,149 |
| Temporarily restricted | 58,623 | - | - | 58,623 |
| Permanently restricted | 2,075,288 | - | - | 2,075,288 |
| Less discount on deferred loans | (933,158) | - | - | (933,158) |
| Net permanently restricted | 1,142,130 | - | - | 1,142,130 |
| Total net assets | 5,720,761 | (128,394) | (124,465) | 5,467,902 |
| Total liabilities and net assets | \$ 9,224,965 | \$ 241,261 | \$ (558,862) | \$ 8,907,364 |

See independent auditor's report.

ONE ROOF COMMUNITY HOUSING

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2014

| | One Roof | Common Ground | Eliminations | Total |
|---|---------------------|---------------------|---------------------|---------------------|
| Revenues and support: | | | | |
| Contributions - development | \$ 108,000 | \$ - | \$ - | \$ 108,000 |
| Government grants and contracts - development | 953,766 | - | - | 953,766 |
| Sales of homes | 1,042,100 | - | - | 1,042,100 |
| Less cost of homes sold | (1,899,117) | - | 27,567 | (1,871,550) |
| Development fees - single family, net | 204,749 | - | 27,567 | 232,316 |
| Development fees - multi-family | 325,000 | - | - | 325,000 |
| Contributions - operating | 229,204 | - | - | 229,204 |
| Contributions - noncash | 15,298 | - | - | 15,298 |
| Special events | 30,532 | - | - | 30,532 |
| Government grants and contracts - operating | 548,021 | - | - | 548,021 |
| Resale fees | 15,782 | - | - | 15,782 |
| Real estate sales commissions | 88,112 | - | - | 88,112 |
| Land lease revenues | 79,319 | - | - | 79,319 |
| Construction revenues | - | 1,392,347 | (1,388,097) | 4,250 |
| Interest income | 436 | - | - | 436 |
| Interest income - loans | 50,134 | - | (7,952) | 42,182 |
| Loan fees | 64,399 | - | - | 64,399 |
| Other revenues | 14,571 | 22,659 | (12,625) | 24,605 |
| Total revenues and support | <u>1,665,557</u> | <u>1,415,006</u> | <u>(1,381,107)</u> | <u>1,699,456</u> |
| Expenses: | | | | |
| Program services | 1,103,337 | 1,148,373 | (1,276,257) | 975,453 |
| Management and general | 214,478 | 163,675 | (7,952) | 370,201 |
| Fundraising | 106,925 | - | - | 106,925 |
| Total program services, less cost of homes sold | <u>1,424,740</u> | <u>1,312,048</u> | <u>(1,284,209)</u> | <u>1,452,579</u> |
| Operating income | 240,817 | 102,958 | (96,898) | 246,877 |
| Contribution for loan program | 80,000 | - | - | 80,000 |
| Land cost capitalization | 161,700 | - | - | 161,700 |
| Contributed properties | 70,000 | - | - | 70,000 |
| Contributions and grants for the Hillside development | 214,000 | - | - | 214,000 |
| Project cost for the Hillside development | (214,000) | - | - | (214,000) |
| Change in net assets | 552,517 | 102,958 | (96,898) | 558,577 |
| Net assets, beginning of year | <u>5,168,244</u> | <u>(231,352)</u> | <u>(27,567)</u> | <u>4,909,325</u> |
| Net assets, end of year | <u>\$ 5,720,761</u> | <u>\$ (128,394)</u> | <u>\$ (124,465)</u> | <u>\$ 5,467,902</u> |

See independent auditor's report.

ONE ROOF COMMUNITY HOUSING

STATEMENTS OF FUNCTIONAL EXPENSES BY ENTITY

For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

| | One Roof | | | | | Common Ground | | | |
|--|---------------------|------------------------|-------------------|---------------------|---------------------|---------------------|------------------------|---------------------|---------------------|
| | 2014 | | | | 2013 | 2014 | | | 2013 |
| | Program services | Management and general | Fundraising | Total expenses | | Program services | Management and general | Total expenses | |
| Salaries | \$ 534,840 | \$ 136,380 | \$ 58,155 | \$ 729,375 | \$ 661,946 | \$ 385,768 | \$ 104,594 | \$ 490,362 | \$ 461,496 |
| Payroll taxes | 45,007 | 10,333 | 4,050 | 59,390 | 53,482 | 67,260 | 18,237 | 85,497 | 68,929 |
| Employee benefits | 76,445 | 17,627 | 6,820 | 100,892 | 99,711 | 55,332 | 15,002 | 70,334 | 47,206 |
| Total salary | 656,292 | 164,340 | 69,025 | 889,657 | 815,139 | 508,360 | 137,833 | 646,193 | 577,631 |
| Professional fees | 43,168 | 4,070 | 2,534 | 49,772 | 60,274 | - | 7,146 | 7,146 | 7,000 |
| Office supplies | 12,985 | 2,703 | 1,655 | 17,343 | 21,154 | 5,104 | 1,384 | 6,488 | 4,936 |
| Postage | 5,247 | 1,646 | 11,643 | 18,536 | 15,549 | - | - | - | - |
| Occupancy and utilities | 15,861 | 1,933 | 1,392 | 19,186 | 27,693 | 12,365 | 3,353 | 15,718 | 8,666 |
| Equipment expense | 26,667 | 406 | 1,978 | 29,051 | 25,209 | 16,420 | - | 16,420 | 4,783 |
| Telephone | 6,790 | 3,340 | 595 | 10,725 | 9,347 | 2,213 | 600 | 2,813 | 3,747 |
| Depreciation | 11,389 | 2,771 | 1,010 | 15,170 | 14,757 | 11,070 | 3,001 | 14,071 | 14,173 |
| Travel and training | 21,203 | 3,079 | 2,355 | 26,637 | 35,003 | 2,535 | - | 2,535 | 2,483 |
| Bad debt expense | 30,435 | - | - | 30,435 | - | - | - | - | - |
| Property acquisition | 516,994 | - | - | 516,994 | 925,646 | - | - | - | - |
| Construction costs | 922,916 | - | - | 922,916 | 1,189,947 | - | - | - | - |
| Other development costs | 601,098 | - | - | 601,098 | 815,559 | - | - | - | - |
| Direct materials | - | - | - | - | - | 265,199 | - | 265,199 | 245,460 |
| Subcontractor costs | - | - | - | - | - | 264,770 | - | 264,770 | 223,974 |
| Other construction costs | - | - | - | - | - | 33,780 | - | 33,780 | 65,962 |
| Funds returned to government agency | 5,433 | - | - | 5,433 | 10,780 | - | - | - | - |
| Homeowner support | 28,780 | 87 | 32 | 28,899 | 45,635 | - | - | - | - |
| Insurance | 17,826 | 2,909 | 1,083 | 21,818 | 19,148 | 22,043 | - | 22,043 | 29,345 |
| Interest / bank fees | 18,690 | 14,076 | 618 | 33,384 | 42,786 | - | 9,010 | 9,010 | 7,554 |
| Marketing | 13,372 | 773 | 1,737 | 15,882 | 24,725 | 4,514 | - | 4,514 | 768 |
| Membership | 8,557 | 1,147 | 425 | 10,129 | 13,436 | - | - | - | - |
| Board | 4,965 | 834 | 231 | 6,030 | 691 | - | - | - | - |
| Discount on new deferred loans | 78,941 | - | - | 78,941 | 36,730 | - | - | - | - |
| Special event expenses | 4,775 | 393 | 10,245 | 15,413 | 23,951 | - | - | - | - |
| Other | 2,370 | 9,971 | 367 | 12,708 | 53,654 | - | 1,348 | 1,348 | 8,020 |
| Total expenses | 3,054,754 | 214,478 | 106,925 | 3,376,157 | 4,226,813 | 1,148,373 | 163,675 | 1,312,048 | 1,204,502 |
| Expenses not included in operating income (loss) | (214,000) | - | - | (214,000) | (572,250) | - | - | - | - |
| Cost of homes sold | (1,899,117) | - | - | (1,899,117) | (2,548,902) | - | - | - | - |
| Land cost capitalization | 161,700 | - | - | 161,700 | 190,000 | - | - | - | - |
| | <u>\$ 1,103,337</u> | <u>\$ 214,478</u> | <u>\$ 106,925</u> | <u>\$ 1,424,740</u> | <u>\$ 1,295,661</u> | <u>\$ 1,148,373</u> | <u>\$ 163,675</u> | <u>\$ 1,312,048</u> | <u>\$ 1,204,502</u> |

See independent auditor's report.

ONE ROOF COMMUNITY HOUSING

COMPARATIVE STATEMENTS OF FINANCIAL POSITION - COMMON GROUND

December 31, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|-----------------------------------|--------------------------|--------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 53,005 | \$ 47,211 |
| Cash designated for programs | - | 813 |
| Accounts receivable, net | 270 | 4,810 |
| Due from One Roof | 147,612 | 80,876 |
| Prepaid expenses | 8,601 | 4,053 |
| Costs in excess of billings | 14,000 | - |
| Total current assets | <u>223,488</u> | <u>137,763</u> |
| Equipment, net | <u>17,773</u> | <u>23,131</u> |
| Total assets | <u><u>\$ 241,261</u></u> | <u><u>\$ 160,894</u></u> |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities: | | |
| Accounts payable | \$ 37,729 | \$ 66,441 |
| Accrued payroll and related taxes | 48,289 | 29,692 |
| Billings in excess of costs | - | 22,400 |
| Due to One Roof | 283,637 | 273,713 |
| Total current liabilities | <u>369,655</u> | <u>392,246</u> |
| Unrestricted net assets | <u>(128,394)</u> | <u>(231,352)</u> |
| Total liabilities and net assets | <u><u>\$ 241,261</u></u> | <u><u>\$ 160,894</u></u> |

See independent auditor's report.

ONE ROOF COMMUNITY HOUSING

COMPARATIVE STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS - COMMON GROUND

For the Years Ended December 31, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|-------------------------------|----------------------------|----------------------------|
| Revenues and support: | | |
| Construction revenues | \$ 1,392,347 | \$ 1,077,874 |
| Other revenues | <u>22,659</u> | <u>3,546</u> |
| Total revenues and support | <u>1,415,006</u> | <u>1,081,420</u> |
| Expenses: | | |
| Program services | 1,148,373 | 1,074,292 |
| Management and general | <u>163,675</u> | <u>130,210</u> |
| Total expenses | <u>1,312,048</u> | <u>1,204,502</u> |
| Change in net assets | 102,958 | (123,082) |
| Net assets, beginning of year | <u>(231,352)</u> | <u>(108,270)</u> |
| Net assets, end of year | <u><u>\$ (128,394)</u></u> | <u><u>\$ (231,352)</u></u> |

See independent auditor's report.

ONE ROOF COMMUNITY HOUSING

STATEMENT OF FINANCIAL POSITION - PERMANENTLY RESTRICTED FUNDS

December 31, 2014

| | NW Fund | CDBG Fund | Homeowner Relief Loan Fund | Total |
|--|------------|--------------|----------------------------------|--------------|
| ASSETS | | | | |
| Current assets: | | | | |
| Loans receivable, current portion | \$ 11,000 | \$ 7,000 | \$ - | \$ 18,000 |
| Total current assets | 11,000 | 7,000 | - | 18,000 |
| Cash restricted for loan programs | 387,412 | 31,431 | 2,761 | 421,604 |
| Loans receivable - net, less current portion | 327,925 | 435,251 | 2,239 | 765,415 |
| Allowance for loan losses | (17,128) | (16,865) | - | (33,993) |
| Total assets | \$ 709,209 | \$ 456,817 | \$ 5,000 | \$ 1,171,026 |
| LIABILITIES AND NET ASSETS | | | | |
| Current liabilities: | | | | |
| Committed loans | \$ 15,384 | \$ - | \$ - | \$ 15,384 |
| Borrower escrows and other liabilities | - | 13,512 | - | 13,512 |
| Total liabilities | 15,384 | 13,512 | - | 28,896 |
| Net assets - | | | | |
| Permanently restricted | 1,626,983 | 443,305 | 5,000 | 2,075,288 |
| Less: discount on deferred loans | (933,158) | - | - | (933,158) |
| Total net assets | 693,825 | 443,305 | 5,000 | 1,142,130 |
| Total liabilities and net assets | \$ 709,209 | \$ 456,817 | \$ 5,000 | \$ 1,171,026 |

See independent auditor's report.

ONE ROOF COMMUNITY HOUSING

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS - PERMANENTLY RESTRICTED FUNDS

For the Year Ended December 31, 2014

| | <u>NW Fund</u> | <u>CDBG Fund</u> | <u>Homeowner Relief Loan Fund</u> | <u>Total</u> |
|--|---------------------|----------------------|---|---------------------|
| Support: | | | | |
| NW capital grant | \$ 80,000 | \$ - | \$ - | \$ 80,000 |
| Expenses: | | | | |
| Grant funds returned | - | 5,433 | - | 5,433 |
| Approved loan losses | 12,000 | - | - | 12,000 |
| Total expenses | <u>12,000</u> | <u>5,433</u> | <u>-</u> | <u>17,433</u> |
| Transfers from unrestricted net assets to permanently restricted net assets | | | | |
| Land - Hillside Apartments | 67,000 | - | - | 67,000 |
| Prior year's loan loss transfer | 35,000 | - | - | 35,000 |
| Use restrictions - CFRAH 2011 | 222,007 | - | - | 222,007 |
| Total transfers | <u>324,007</u> | <u>-</u> | <u>-</u> | <u>324,007</u> |
| Change in net assets | 392,007 | (5,433) | - | 386,574 |
| Net assets: | | | | |
| Beginning of year | <u>1,234,976</u> | <u>448,738</u> | <u>5,000</u> | <u>1,688,714</u> |
| End of year | <u>\$ 1,626,983</u> | <u>\$ 443,305</u> | <u>\$ 5,000</u> | <u>\$ 2,075,288</u> |

See independent auditor's report.