

**ONE ROOF COMMUNITY HOUSING**

**CONSOLIDATED FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED  
DECEMBER 31, 2015**

# ONE ROOF COMMUNITY HOUSING

## CONSOLIDATED FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

For the Year Ended December 31, 2015  
(With Comparative Totals for 2014)

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# Mahoney Ulbrich Christiansen Russ P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

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

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, 2015, 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. 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, 2015, 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 2014 consolidated financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated June 25, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, 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 25 through 33 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.

*Mahoney Ulbrich  
Christiansen Russ P.A.*

Saint Paul, Minnesota  
June 13, 2016

# ONE ROOF COMMUNITY HOUSING

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2015  
(With Comparative Totals for 2014)

	2015	2014
<b>ASSETS</b>		
Current assets:		
Cash	\$ 565,708	\$ 400,805
Cash designated for programs	386,224	679,028
Accounts and grants receivable, net	506,565	564,465
Contributions receivable	69,039	58,623
Loans receivable, current portion	57,400	41,700
Prepaid expenses	26,812	12,257
Properties under development and for sale	1,663,045	1,805,678
Total current assets	3,274,793	3,562,556
Cash restricted for loan programs	494,335	748,029
Loans receivable - net, less current portion	1,210,485	988,024
Leasehold improvements and equipment, net	98,651	55,630
Multifamily rental property, net	118,068	-
Land held in trust	3,745,175	3,553,125
Total assets	\$ 8,941,507	\$ 8,907,364
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 815,476	\$ 685,754
Line of credit	75,000	-
Accounts payable	134,901	75,811
Accrued payroll and related taxes	240,313	215,608
Accrued interest	-	5,500
Billings in excess of costs	7,141	-
Deferred revenue	347,757	624,137
Committed loans	162,380	84,413
Borrower escrows	13,821	1,776
Other current liabilities	75,496	132,695
Total current liabilities	1,872,285	1,825,694
Loans payable - operating	550,000	550,000
Long-term debt, less current maturities	510,011	1,063,768
Total liabilities	2,932,296	3,439,462
Net assets:		
Unrestricted	665,411	604,024
Board designated - operating reserve	295,000	110,000
Board designated - land held in trust	3,745,175	3,553,125
Total unrestricted	4,705,586	4,267,149
Temporarily restricted	69,039	58,623
Permanently restricted	2,101,172	2,075,288
Less discount on deferred loans	(866,586)	(933,158)
Net permanently restricted	1,234,586	1,142,130
Total net assets	6,009,211	5,467,902
Total liabilities and net assets	\$ 8,941,507	\$ 8,907,364

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, 2015  
(With Comparative Totals for 2014)

	2015			Total	2014
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>Revenues and support:</b>					
Contributions - development	\$ 154,000	\$ -	\$ -	\$ 154,000	108,000
Government grants and contracts - development	992,603	-	-	992,603	953,766
Sales of homes	1,624,500	-	-	1,624,500	1,042,100
Less cost of homes sold	<u>(2,384,748)</u>	-	-	<u>(2,384,748)</u>	<u>(1,871,550)</u>
Development fees - single family, net	386,355	-	-	386,355	232,316
Development fees - multi-family	246,551	-	-	246,551	325,000
Construction revenues	354,062	-	-	354,062	4,250
Less construction service expense	<u>(313,279)</u>	-	-	<u>(313,279)</u>	<u>(3,293)</u>
Construction revenues, net	40,783	-	-	40,783	957
Contributions - operating	184,357	69,039	-	253,396	229,204
Contributions - noncash	29,887	-	-	29,887	15,298
Special events	33,161	-	-	33,161	30,532
Government grants and contracts - operating	494,987	-	-	494,987	548,021
Resale fees	13,854	-	-	13,854	15,782
Real estate sales commissions	118,848	-	-	118,848	88,112
Land lease revenues	86,171	-	-	86,171	79,319
Interest income - loans	33,133	-	-	33,133	42,182
Interest income - deferred loan accretion	-	-	98,482	98,482	-
Interest income - other	817	-	-	817	436
Loan fees	77,916	-	-	77,916	64,399
Other revenues	19,814	-	-	19,814	24,605
Net assets released from restriction	<u>134,649</u>	<u>(58,623)</u>	<u>(76,026)</u>	<u>-</u>	<u>-</u>
Total revenues and support	<u>1,901,283</u>	<u>10,416</u>	<u>22,456</u>	<u>1,934,155</u>	<u>1,696,163</u>
<b>Expenses:</b>					
Community land trust	357,141	-	-	357,141	208,688
Education, counseling and homeowner services	114,259	-	-	114,259	126,428
Lending services	324,988	-	-	324,988	302,472
Neighborhood revitalization	15,091	-	-	15,091	86,710
Multi-family development	241,975	-	-	241,975	242,429
Tenant-landlord connection	<u>80,367</u>	-	-	<u>80,367</u>	<u>-</u>
Total program services, less cost of homes sold	1,133,821	-	-	1,133,821	966,727
Management and general	365,508	-	-	365,508	370,201
Fundraising	<u>131,201</u>	-	-	<u>131,201</u>	<u>106,925</u>
Total expenses	<u>1,630,530</u>	<u>-</u>	<u>-</u>	<u>1,630,530</u>	<u>1,443,853</u>
Operating income	270,753	10,416	22,456	303,625	252,310
Land cost capitalization	171,800	-	-	171,800	161,700
Contributions and grants for loan program	-	-	70,000	70,000	80,000
Loan program funds returned to government agency	(44,116)	-	-	(44,116)	(5,433)
Contributed properties	40,000	-	-	40,000	70,000
Revenue for the Hillside development	248,298	-	-	248,298	214,000
Project cost for the Hillside development	<u>(248,298)</u>	-	-	<u>(248,298)</u>	<u>(214,000)</u>
Change in net assets	438,437	10,416	92,456	541,309	558,577
Net assets, beginning 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>
Net assets, end of year	<u>\$ 4,705,586</u>	<u>\$ 69,039</u>	<u>\$ 1,234,586</u>	<u>\$ 6,009,211</u>	<u>5,467,902</u>

See accompanying notes to consolidated financial statements.

**ONE ROOF COMMUNITY HOUSING**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2015  
(With Comparative Totals for 2014)

	2015											2014
	Community land trust	Construction services	Education, counseling and homeowner services	Lending services	Neighborhood revitalization	Multi-family development	Tenant-landlord connection	Total program services	Management and general	Fundraising	Total	
Salaries	\$ 199,486	\$ 439,065	\$ 76,905	\$ 173,753	\$ 8,758	\$ 160,578	\$ 58,160	\$ 1,116,705	\$ 220,140	\$ 64,971	\$ 1,401,816	\$ 1,219,737
Payroll taxes	14,357	54,904	5,243	12,149	669	11,729	3,941	102,992	24,164	4,127	131,283	144,887
Employee benefits	31,668	72,098	9,639	26,379	1,509	24,471	6,198	171,962	34,882	9,770	216,614	171,459
	<u>245,511</u>	<u>566,067</u>	<u>91,787</u>	<u>212,281</u>	<u>10,936</u>	<u>196,778</u>	<u>68,299</u>	<u>1,391,659</u>	<u>279,186</u>	<u>78,868</u>	<u>1,749,713</u>	<u>1,536,083</u>
Professional fees	17,731	-	2,807	19,961	645	6,977	1,010	49,131	12,246	2,730	64,107	58,003
Office supplies	3,978	3,820	964	2,815	144	2,332	639	14,692	3,601	1,984	20,277	22,349
Postage	2,377	-	494	1,354	40	1,210	495	5,970	3,284	8,359	17,613	18,536
Occupancy and utilities	5,009	8,302	1,181	3,979	274	3,675	1,111	23,531	4,516	1,135	29,182	34,904
Equipment expense	8,043	10,839	1,756	10,906	441	5,778	2,503	40,266	6,340	2,584	49,190	44,025
Telephone	4,934	2,256	1,050	4,023	194	3,665	1,306	17,428	2,348	1,104	20,880	13,538
Depreciation	4,577	6,402	1,395	4,121	229	6,907	840	24,471	3,992	1,409	29,872	29,241
Travel and training	12,860	3,125	3,983	2,371	148	6,190	830	29,507	5,831	1,020	36,358	29,172
Bad debt expense	-	-	-	-	-	-	-	-	-	-	-	30,435
Property acquisition	1,041,250	-	-	-	-	-	-	1,041,250	-	-	1,041,250	516,994
Construction costs	1,017,704	592,535	-	-	-	-	-	1,610,239	-	-	1,610,239	1,485,672
Other development costs	330,697	-	-	560	-	248,298	-	579,555	-	-	579,555	601,098
Funds returned to government agency	-	-	-	44,116	1,116	-	-	45,232	-	-	45,232	5,433
Homeowner support	26,180	-	4,655	3,412	-	-	-	34,247	-	-	34,247	28,899
Insurance	3,707	26,293	645	4,300	107	1,642	385	37,079	1,870	652	39,601	43,861
Interest / bank fees	3,202	-	222	12,538	1	3,188	5	19,156	6,937	791	26,884	34,442
Marketing	8,377	1,058	2,434	8,022	183	1,448	2,101	23,623	1,514	3,190	28,327	20,396
Membership	6,516	-	646	1,684	128	1,580	308	10,862	1,131	626	12,619	10,129
Board	518	2,353	155	435	12	39	144	3,656	4,284	523	8,463	9,717
Discount on new deferred loans	-	-	-	31,910	-	-	-	31,910	-	-	31,910	78,941
Special event expenses	14	-	-	-	-	-	255	269	822	25,815	26,906	15,413
Other	4,166	-	85	316	493	566	136	5,762	27,606	411	33,779	12,972
<b>Total expenses</b>	<b>2,747,351</b>	<b>1,223,050</b>	<b>114,259</b>	<b>369,104</b>	<b>15,091</b>	<b>490,273</b>	<b>80,367</b>	<b>5,039,495</b>	<b>365,508</b>	<b>131,201</b>	<b>5,536,204</b>	<b>4,680,253</b>
Reclassify Common Ground expense related to One Roof projects	909,771	(909,771)	-	-	-	-	-	-	-	-	-	-
Expenses not included in operating income	-	-	-	(44,116)	-	(248,298)	-	(292,414)	-	-	(292,414)	(219,433)
Cost of homes sold	(2,384,748)	-	-	-	-	-	-	(2,384,748)	-	-	(2,384,748)	(1,871,550)
Construction service expense	-	(313,279)	-	-	-	-	-	(313,279)	-	-	(313,279)	(3,293)
Eliminate construction costs paid to Common Ground by One Roof	(1,087,033)	-	-	-	-	-	-	(1,087,033)	-	-	(1,087,033)	(1,303,824)
Land cost capitalization	171,800	-	-	-	-	-	-	171,800	-	-	171,800	161,700
	<u>\$ 357,141</u>	<u>\$ -</u>	<u>\$ 114,259</u>	<u>\$ 324,988</u>	<u>\$ 15,091</u>	<u>\$ 241,975</u>	<u>\$ 80,367</u>	<u>\$ 1,133,821</u>	<u>\$ 365,508</u>	<u>\$ 131,201</u>	<u>\$ 1,630,530</u>	<u>\$ 1,443,853</u>
<b>% of expense before transferring cost of homes sold and land cost capitalized:</b>												
2015	62%	8%	3%	8%	0%	6%	2%	88%	9%	3%	100%	
2014	61%	0%	3%	10%	3%	8%	0%	85%	12%	3%	100%	

See accompanying notes to consolidated financial statements.

# ONE ROOF COMMUNITY HOUSING

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2015  
(With Comparative Totals for 2014)

Increase (Decrease) in Cash

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ 541,309	\$ 558,577
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation	29,872	29,241
Contributions and grants for loan program	(70,000)	(80,000)
Contributed properties and equipment	(40,000)	(84,100)
Changes in discount on deferred loans receivable	(66,572)	68,756
Funds returned to government agency for loan program	44,116	5,433
Bad debt expense	-	30,435
Changes in operating assets and liabilities:		
Receivables	47,484	(299,334)
Prepaid expenses	(14,555)	17,285
Properties under development and for sale	182,633	(599,672)
Land held in trust	(192,050)	(161,700)
Accounts payable	59,090	(41,262)
Accrued expenses	19,205	36,694
Deferred revenue	(276,380)	142,087
Borrower escrows	12,045	(616)
Other liabilities	(50,058)	86,724
Net cash from operating activities	226,139	(291,452)
Cash flows from investing activities:		
Decrease (increase) in cash restricted for loan programs	253,694	(339,935)
Issuance of loans receivable	(319,828)	(28,747)
Collection of loans receivable	226,206	135,200
Purchase of multi-family property	(121,998)	-
Purchase of leasehold improvements and equipment	(68,963)	(22,591)
Net cash from investing activities	(30,889)	(256,073)
Cash flows from financing activities:		
Contributions for loan program	70,000	80,000
Change in operating line of credit, net	75,000	-
Funds returned to government agency for loan program	(44,116)	(5,433)
Proceeds from issuance of debt	642,866	622,674
Repayment of debt	(1,066,901)	(234,303)
Net cash from financing activities	(323,151)	462,938
Net increase (decrease) in cash	(127,901)	(84,587)
Cash, beginning of year	1,079,833	1,164,420
Cash, end of year	\$ 951,932	\$ 1,079,833
Reconciliation of cash to statement of financial position:		
Cash	\$ 565,708	\$ 400,805
Cash designated for programs	386,224	679,028
	\$ 951,932	\$ 1,079,833
Cash paid for interest expense	\$ 76,968	\$ 51,062
Noncash investing activities:		
Contributed properties and equipment	\$ 40,000	\$ 84,100

See accompanying notes to consolidated financial statements.

# ONE ROOF COMMUNITY HOUSING

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2015  
(With Comparative Totals for 2014)

### 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:

**Community Land Trust (CLT) Program:** One Roof develops CLT homes for purchase by low-to-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.

**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.

**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.

(Continued)

# ONE ROOF COMMUNITY HOUSING

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2015  
(With Comparative Totals for 2014)

### 1. ORGANIZATION (Continued)

**Tenant-Landlord Connection (TLC) Program:** One Roof provides education, information, and problem solving assistance as a way to improve tenant-landlord relations and decrease the amount of housing evictions in our community. The mission of TLC is to ensure that stable rental housing exists by educating existing and potential landlords and tenants regarding their respective rights and responsibilities and by mediating disputes between landlords and tenants.

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

### 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 of Duluth, Inc. (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.

**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.

(Continued)

# ONE ROOF COMMUNITY HOUSING

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2015  
(With Comparative Totals for 2014)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**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.

**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.

**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 \$19,008 and \$24,960 at December 31, 2015 and 2014, respectively. 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 30 years. The loans are secured by real estate mortgages.

(Continued)

# ONE ROOF COMMUNITY HOUSING

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2015  
(With Comparative Totals for 2014)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 years as of December 31, 2015 and 2014, 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.

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.

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 \$42,040 and \$85,289 at December 31, 2015 and 2014, 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 included in cost of homes sold, and 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.

(Continued)

# ONE ROOF COMMUNITY HOUSING

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2015  
(With Comparative Totals for 2014)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Multifamily Rental Property, Leasehold Improvements and Equipment** – Multifamily rental property, leasehold improvements and equipment are recorded at cost or fair value on the date of contribution. Multifamily rental property, leasehold improvements and equipment are depreciated using the straight line method over the following periods.

Land improvements	15 years
Building	20 years
Leasehold improvements	5 years
Equipment	3-7 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. Home owners pay a monthly fee for use of the land which is recorded as land lease revenues when paid.

**Investments in LLCs** - One Roof has 50% interests in Hillside Development Duluth, LLC and Gateway Redeveloper, LLC (the LLCs). The LLCs are the managing general partners of Hillside Apartments Duluth, LLLP (Note 5) and Gateway Properties, LLLP. One Roof is not the controlling general partner. The general partnership interests are recorded at cost (\$0 as of December 31, 2015 and 2014).

**Impairment** - Management assesses long-lived assets for impairment when conditions warrant. No impairment was recognized in 2015 or 2014.

**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.

(Continued)

# ONE ROOF COMMUNITY HOUSING

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2015  
(With Comparative Totals for 2014)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2015 or 2014.

**Contributed Materials** - Contributed materials are recorded as contributions, when received, at their fair value. Contributed real estate valued at \$40,000, contributed software of \$8,621, special event materials and supplies of \$13,266 and advertising of \$8,000 were recognized in 2015. Contributed real estate valued at \$70,000, contributed software of \$14,100 and construction materials of \$1,198 were recognized in 2014.

**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.

(Continued)

# ONE ROOF COMMUNITY HOUSING

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2015  
(With Comparative Totals for 2014)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Community Housing 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 Community Housing.

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 Community Housing 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 2015 or 2014.

**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, 2014.

(Continued)

# ONE ROOF COMMUNITY HOUSING

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2015  
(With Comparative Totals for 2014)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Reclassifications** - Reclassifications were made to the 2014 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, 2015, are due in 2016.

4. **LOANS RECEIVABLE**

Loans receivable by portfolio consist of the following:

	2015	2014
Amortizing mortgages	\$ 908,322	\$ 697,482
Deferred loans	1,132,206	1,208,706
Due on sale loans	135,983	141,983
Total loans receivable	2,176,511	2,048,171
Less discount on deferred and due on sale loans	(866,586)	(933,158)
Less allowance for loan losses	(42,040)	(85,289)
Total loans receivable, net	1,267,885	1,029,724
Less current portion	(57,400)	(41,700)
Noncurrent portion	\$ 1,210,485	\$ 988,024

Activity in the allowance for loan losses was as follows:

	2015	2014
Beginning balance	\$ 85,289	\$ 58,909
Loans charged off	(43,249)	(4,055)
Provision for losses	-	30,435
Ending balance	\$ 42,040	\$ 85,289

(Continued)

# ONE ROOF COMMUNITY HOUSING

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2015  
(With Comparative Totals for 2014)

### 4. LOANS RECEIVABLE (Continued)

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

	2015				2014
	Amortizing mortgages	Deferred loans	Due on sale loans	Total	
Current	\$ 885,830	\$ -	\$ -	\$ 885,830	\$ 634,482
31 - 60 days	10,541	-	-	10,541	33,319
61 - 90 days	-	-	-	-	-
Over 90 days	11,951	-	-	11,951	29,681
Due on maturity	-	1,132,206	135,983	1,268,189	1,350,689
<b>Total</b>	<b>\$ 908,322</b>	<b>\$ 1,132,206</b>	<b>\$ 135,983</b>	<b>\$ 2,176,511</b>	<b>\$ 2,048,171</b>

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

	2015				2014
	Amortizing mortgages	Deferred loans	Due on sale loans	Total	
Beginning balance	\$ 85,289	\$ -	\$ -	\$ 85,289	\$ 58,909
Loans charged off	(43,249)	-	-	(43,249)	(4,055)
Provision for losses	-	-	-	-	30,435
<b>Total</b>	<b>\$ 42,040</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 42,040</b>	<b>\$ 85,289</b>

Other information as of December 31, 2015:

- 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, 2015  
(With Comparative Totals for 2014)

**5. LOANS RECEIVABLE - OTHER**

One Roof has made a commitment to loan \$819,457 to Hillside Apartments Duluth, LLLP payable in December 2045 with interest at 3%. At December 31, 2015 and 2014, \$733,356 and \$703,356 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:

	2015	2014
Houses under development and for sale – 10 in 2015 and 16 in 2014	\$ 1,258,731	\$ 1,680,892
Multi-family development:		
Gateway Towers	234,649	64,836
Other multi-family developments	108,326	-
Vacant lots held for development – 5 in 2015 and 5 in 2014	61,339	59,950
	\$ 1,663,045	\$ 1,805,678

**7. LEASEHOLD IMPROVEMENTS AND EQUIPMENT**

Leasehold improvements and equipment consists of the following:

	2015	2014
Equipment	\$ 202,689	\$ 173,779
Leasehold improvements	32,261	5,100
Less accumulated depreciation	(136,299)	(123,249)
	\$ 98,651	\$ 55,630

(Continued)

# ONE ROOF COMMUNITY HOUSING

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2015  
(With Comparative Totals for 2014)

### 8. MULTI-FAMILY RENTAL PROPERTY

Multi-family rental property consists of the following:

	2015	2014
Building – SOL House	\$ 105,312	\$ -
Land improvements	13,992	-
Equipment	2,694	-
Less accumulated depreciation	(3,930)	-
	\$ 118,068	\$ -

The multi-family rental property is the SOL House which One Roof has leased to Life House for a five year term beginning June 2015. Minimum future lease payments consist of \$24,000 annually from 2016 through 2019 and \$9,000 in 2020.

### 9. 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 283 lots at December 31, 2015 and 257 at December 31, 2014.

### 10. DEBT

Debt consists of the following:

	2015	2014
Greater Minnesota Housing Fund	\$ 635,313	\$ 977,426
MHFA CRV Funds	230,000	460,000
LISC	95,575	68,000
City of Duluth HIF	218,242	218,242
City of Duluth	110,000	50,000
U.S. Bancorp CDC	250,000	250,000
Wells Fargo CDC	100,000	100,000
North Shore Bank	113,130	175,854
North Shore Bank – SOL House	123,227	-
Northland Foundation LOC	75,000	-
	\$ 1,950,487	\$ 2,299,522

(Continued)

# ONE ROOF COMMUNITY HOUSING

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2015  
(With Comparative Totals for 2014)

### 10. DEBT (Continued)

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

	2015	2014
Current maturities of long-term debt	\$ 815,476	\$ 685,754
Line of credit	75,000	-
Loans payable – operating	550,000	550,000
Long-term debt, less current maturities	510,011	1,063,768
	<u>\$ 1,950,487</u>	<u>\$ 2,299,522</u>

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

- \$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 \$85,313 at December 31, 2015 and \$427,426 at December 31, 2014.
- \$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, 2015 and 2014.

**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 was in July 2015. In December 2014 and January 2016 the loan was modified. In January 2016, the MHFA CRV funds were modified to consist of a \$905,000 note payable to MHFA due \$575,000 in August 2017 and \$330,000 in August 2018.

- \$230,000 was for construction loans without interest in the original agreement, unsecured. This was not extended by the loan modification.
- \$230,000 is for construction financing with interest at 2%, unsecured.
- \$160,000 was for affordability gap financing without interest and secured by the real estate in the original agreement. Upon loan closing these loans will be assigned to MHFA. This was decreased to \$120,000 by the loan modification.
- \$225,000 is for affordability gap or value gap financing without interest and secured by the real estate per the loan modification.
- \$330,000 is for a MHFA pilot program that provides low-interest interim loans to acquire, demolish, rehabilitate or construct homes for owner-occupants per the loan modification.

(Continued)

# ONE ROOF COMMUNITY HOUSING

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2015  
(With Comparative Totals for 2014)

### 10. DEBT (Continued)

**LISC** - One Roof has recoverable grants and project investments 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, 2015 and 2014.
- \$48,000 recoverable grant for the 52nd Avenue East and Lester Street properties due on sale of the properties or July 1, 2016. Secured by the properties. The outstanding balance was \$48,000 at December 31, 2015 and 2014.
- \$15,000 project investment for Gateway Towers due on the close of the construction financing or December 31, 2016. Secured by the property. The outstanding balance was \$14,360 at December 31, 2015.
- \$19,340 project investment for Gateway Towers due on the close of the construction financing or December 31, 2016. Secured by the property. The outstanding balance was \$13,215 at December 31, 2015.

**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** - Originally a \$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. In July 2015 the note was modified to increase the principal balance to \$110,000. Proceeds are to be used for predevelopment expenses for the Gateway Towers 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, 2016. Unsecured.

**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.

(Continued)

# ONE ROOF COMMUNITY HOUSING

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2015  
(With Comparative Totals for 2014)

### 10. DEBT (Continued)

**North Shore Bank** - \$450,000 commitment to provide financing through July 31, 2016. 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. 2 individual loans are outstanding at December 31, 2015.

**North Shore Bank - SOL House** - Mortgages payable to the North Shore Bank for acquisition and rehabilitation of the SOL House.

- \$108,000 note payable with interest at 4.5%. Monthly principal and interest payments of \$1,122.88 are due through May 27, 2020. Secured by the SOL House property.
- \$27,000 note payable with interest at 4.75%. Monthly principal and interest payments of \$284.04 are due through May 27, 2020. Secured by the SOL House property and guaranteed by Northland Foundation.

**Northland Foundation LOC (serviced by North Shore Bank of Commerce)** - \$75,000 unsecured revolving line of credit with interest at 4.75% maturing in March 30, 2016. Subsequent to December 31, 2015, the line of credit was extended to March 30, 2017.

**Members Cooperative Credit Union LOC** - \$29,000 unsecured revolving line of credit with interest at a variable rate based on the prime rate plus 3.0% maturing in July 9, 2017. There were no advances at December 31, 2015.

Future maturities of debt are as follows:

2016	\$	890,476
2017		402,006
2018		352,568
2019		13,155
2020		74,040
Thereafter		218,242
		<hr/>
	\$	1,950,487

Interest expense was \$69,684 in 2015 and \$51,062 in 2014, of which \$44,700 and \$18,959 was included in the cost of homes sold.

(Continued)

# ONE ROOF COMMUNITY HOUSING

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2015  
(With Comparative Totals for 2014)

### 11. LEASE COMMITMENTS

One Roof leases office space and office equipment under operating lease agreements. Rent expense was \$15,223 in 2015 and \$34,904 in 2014. Future minimum lease payments are:

2016	\$	12,420
2017		12,408
2018		2,148
2019		2,148
2020		2,148
2021		179
		179
	\$	31,451

### 12. 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, 2015 and 2014 consist of time restricted contributions receivable.

Permanently restricted net assets consist of the following restricted for loans:

	2015	2014
NeighborWorks America (NW) fund	\$ 1,696,983	\$ 1,626,983
CDBG fund City of Duluth	399,189	443,305
Homeowner relief loan fund	5,000	5,000
	\$ 2,101,172	\$ 2,075,288

The permanently restricted loan funds are offset by a discount on deferred loans of \$866,586 and \$933,158 at December 31, 2015 and 2014, respectively.

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.

(Continued)

# ONE ROOF COMMUNITY HOUSING

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2015  
(With Comparative Totals for 2014)

### 13. 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 \$77,307 in 2015 and \$63,503 in 2014.

### 14. 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 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 88% and 93% of government grants from four agencies during 2015 and 2014, respectively.

One Roof received 40% and 42% of contributions from two contributors during 2015 and 2014, 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.

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, 2015.

(Continued)

# ONE ROOF COMMUNITY HOUSING

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2015  
(With Comparative Totals for 2014)

### 14. COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS (Continued)

One Roof is responsible for warranty work for construction services. Warranty periods are typically 10 years for structural items, 2 years for mechanical items and 1 year for workmanship items. Warranty costs have not been significant in the past and management does not expect warranty cost to be significant. No provision for possible warranty costs has been recorded in 2015 or 2014.

One Roof entered into a development agreement with the City of Duluth to construct nine homes, two to be moderate income housing. The selling prices of the homes are limited by the terms of the agreement. The homes are to be completed by December 31, 2016 (Jay Street Development).

As of December 31, 2015, One Roof had several purchase agreements for a total price of \$1,315,000 (Medical District). In May of 2016, one of these purchase agreements for \$490,000 was executed and the property purchased.

### 15. 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 a loan 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 \$246,551 and \$325,000 in 2015 and 2014, respectively. At December 31, 2015, \$20,000 of this development fee is recorded in accounts receivable.

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.

(Continued)

# ONE ROOF COMMUNITY HOUSING

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2015  
(With Comparative Totals for 2014)

### 16. **SUBSEQUENT EVENTS**

In 2016, One Roof, along with Center City, plans to close on the purchase of the 150-unit Gateway development project for \$18 million (Gateway Properties, LLLP). The renovations will be financed through \$3 million of long-term debt and \$15 million of investor contributions. A letter of intent was signed by the investor in March of 2016.

One Roof acquired a \$150,000 note payable with Nonprofits Assistance Fund in May 2016 to assist in paying debt maturing in 2016.

Management has evaluated subsequent events through June 13, 2016, the date on which the financial statements were made available for issue, and identified no further significant events or transactions to disclose.

## **SUPPLEMENTARY INFORMATION**

**ONE ROOF COMMUNITY HOUSING**

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2015

	One Roof	One Roof Lending	Common Ground	Eliminations	Total
<b>ASSETS</b>					
Current assets:					
Cash	\$ 532,162	\$ 21,977	\$ 11,569	\$ -	\$ 565,708
Cash designated for programs	382,464	-	3,760	-	386,224
Accounts and grants receivable, net	495,691	-	10,874	-	506,565
Contributions receivable	69,039	-	-	-	69,039
Due from other division	160,719	164,321	151,849	(476,889)	-
Loans receivable, current portion	-	57,400	-	-	57,400
Prepaid expenses	19,489	-	7,323	-	26,812
Properties under development and for sale	1,745,128	-	-	(82,083)	1,663,045
Total current assets	<u>3,404,692</u>	<u>243,698</u>	<u>185,375</u>	<u>(558,972)</u>	<u>3,274,793</u>
Cash restricted for loan programs	-	494,335	-	-	494,335
Investment in Common Ground	98,780	-	-	(98,780)	-
Loans receivable - net, less current portion	19,143	1,191,342	-	-	1,210,485
Leasehold improvements and equipment, net	82,282	-	16,369	-	98,651
Multifamily rental property, net	118,068	-	-	-	118,068
Land held in trust	3,745,175	-	-	-	3,745,175
Total assets	<u>\$ 7,468,140</u>	<u>\$ 1,929,375</u>	<u>\$ 201,744</u>	<u>\$ (657,752)</u>	<u>\$ 8,941,507</u>
<b>LIABILITIES AND NET ASSETS</b>					
Current liabilities:					
Current maturities of long-term debt	\$ 715,476	\$ 100,000	\$ -	\$ -	\$ 815,476
Line of credit	75,000	-	-	-	75,000
Accounts payable	98,918	-	38,826	(2,843)	134,901
Accrued payroll and related taxes	201,343	-	38,970	-	240,313
Billings in excess of costs	-	-	16,493	(9,352)	7,141
Deferred revenue	347,757	-	-	-	347,757
Committed loans	-	162,380	-	-	162,380
Borrower escrows	-	13,821	-	-	13,821
Other current liabilities	-	75,496	-	-	75,496
Due to other division	316,170	-	157,876	(474,046)	-
Total current liabilities	<u>1,754,664</u>	<u>351,697</u>	<u>252,165</u>	<u>(486,241)</u>	<u>1,872,285</u>
Loans payable - operating	550,000	-	-	-	550,000
Long-term debt, less current maturities	196,769	313,242	-	-	510,011
Total liabilities	<u>2,501,433</u>	<u>664,939</u>	<u>252,165</u>	<u>(486,241)</u>	<u>2,932,296</u>
Net assets:					
Unrestricted	852,493	34,850	(50,421)	(171,511)	665,411
Board designated - operating reserve	295,000	-	-	-	295,000
Board designated - land held in trust	3,745,175	-	-	-	3,745,175
Total unrestricted	<u>4,892,668</u>	<u>34,850</u>	<u>(50,421)</u>	<u>(171,511)</u>	<u>4,705,586</u>
Temporarily restricted	69,039	-	-	-	69,039
Permanently restricted	5,000	2,096,172	-	-	2,101,172
Less discount on deferred loans	-	(866,586)	-	-	(866,586)
Net permanently restricted	<u>5,000</u>	<u>1,229,586</u>	<u>-</u>	<u>-</u>	<u>1,234,586</u>
Total net assets	<u>4,966,707</u>	<u>1,264,436</u>	<u>(50,421)</u>	<u>(171,511)</u>	<u>6,009,211</u>
Total liabilities and net assets	<u>\$ 7,468,140</u>	<u>\$ 1,929,375</u>	<u>\$ 201,744</u>	<u>\$ (657,752)</u>	<u>\$ 8,941,507</u>

See independent auditor's report.

## ONE ROOF COMMUNITY HOUSING

### CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2015

	One Roof	One Roof Lending	Common Ground	Eliminations	Total
<b>Revenues and support:</b>					
Contributions - development	\$ 154,000	\$ -	\$ -	\$ -	\$ 154,000
Government grants and contracts - development	992,603	-	-	-	992,603
Sales of homes	1,624,500	-	-	-	1,624,500
Less cost of homes sold	<u>(2,562,010)</u>	<u>-</u>	<u>-</u>	<u>177,262</u>	<u>(2,384,748)</u>
Development fees - single family, net	209,093	-	-	177,262	386,355
Development fees - multi-family	246,551	-	-	-	246,551
Construction revenues	-	-	1,372,669	(1,018,607)	354,062
Less construction service expense	<u>-</u>	<u>-</u>	<u>(1,223,050)</u>	<u>909,771</u>	<u>(313,279)</u>
Construction revenues, net	-	-	149,619	(108,836)	40,783
Contributions - operating	180,896	72,500	-	-	253,396
Contributions - noncash	29,887	-	-	-	29,887
Special events	33,161	-	-	-	33,161
Government grants and contracts - operating	359,257	135,730	-	-	494,987
Resale fees	13,854	-	-	-	13,854
Real estate sales commissions	118,848	-	-	-	118,848
Land lease revenues	86,171	-	-	-	86,171
Interest income - loans	7,865	33,133	-	(7,865)	33,133
Interest income - deferred loan accretion	-	98,482	-	-	98,482
Interest income - other	817	-	-	-	817
Loan fees	-	77,916	-	-	77,916
Other revenues	<u>34,742</u>	<u>1,552</u>	<u>11,212</u>	<u>(27,692)</u>	<u>19,814</u>
Total revenues and support	<u>1,321,142</u>	<u>419,313</u>	<u>160,831</u>	<u>32,869</u>	<u>1,934,155</u>
<b>Expenses:</b>					
Program services	809,392	324,429	-	-	1,133,821
Management and general	202,735	-	181,638	(18,865)	365,508
Fundraising	<u>131,201</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>131,201</u>
Total program services, less cost of homes sold	<u>1,143,328</u>	<u>324,429</u>	<u>181,638</u>	<u>(18,865)</u>	<u>1,630,530</u>
Operating income (loss)	177,814	94,884	(20,807)	51,734	303,625
Land cost capitalization	171,800	-	-	-	171,800
Contributions and grants for loan program	-	70,000	-	-	70,000
Loan program funds returned to government agency	-	(44,116)	-	-	(44,116)
Contributed properties	40,000	-	-	-	40,000
Revenue for the Hillside development	248,298	-	-	-	248,298
Project cost for the Hillside development	<u>(248,298)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(248,298)</u>
Change in net assets	389,614	120,768	(20,807)	51,734	541,309
Net assets, beginning of year	4,577,093	1,143,668	(128,394)	(124,465)	5,467,902
Capital contribution	<u>-</u>	<u>-</u>	<u>98,780</u>	<u>(98,780)</u>	<u>-</u>
Net assets, end of year	<u>\$ 4,966,707</u>	<u>\$ 1,264,436</u>	<u>\$ (50,421)</u>	<u>\$ (171,511)</u>	<u>\$ 6,009,211</u>

See independent auditor's report.

**ONE ROOF COMMUNITY HOUSING**

STATEMENTS OF FUNCTIONAL EXPENSES BY ENTITY

For the Year Ended December 31, 2015  
(With Comparative Totals for 2014)

	One Roof and One Roof Lending					Common Ground			
	2015					2015			
	Program services	Management and general	Fundraising	Total expenses	2014	Program services	Management and general	Total expenses	2014
Salaries	\$ 677,640	\$ 106,775	\$ 64,971	\$ 849,386	\$ 729,375	\$ 439,065	\$ 124,365	\$ 563,430	\$ 490,362
Payroll taxes	48,088	8,613	4,127	60,828	59,390	54,904	15,551	70,455	85,497
Employee benefits	99,864	15,100	9,770	124,734	100,892	72,098	19,782	91,880	70,567
<b>Total salary</b>	<b>825,592</b>	<b>130,488</b>	<b>78,868</b>	<b>1,034,948</b>	<b>889,657</b>	<b>566,067</b>	<b>159,698</b>	<b>725,765</b>	<b>646,426</b>
Professional fees	49,131	5,356	2,730	57,217	49,772	-	6,890	6,890	8,231
Office supplies	10,872	2,519	1,984	15,375	17,343	3,820	1,082	4,902	5,006
Postage	5,970	3,284	8,359	17,613	18,536	-	-	-	-
Occupancy and utilities	15,229	2,165	1,135	18,529	19,186	8,302	2,351	10,653	15,718
Equipment expense	29,427	6,340	2,584	38,351	29,051	10,839	-	10,839	14,974
Telephone	15,172	1,709	1,104	17,985	10,725	2,256	639	2,895	2,813
Depreciation	18,069	2,179	1,409	21,657	15,170	6,402	1,813	8,215	14,071
Travel and training	26,382	4,946	1,020	32,348	26,637	3,125	885	4,010	2,535
Bad debt expense	-	-	-	-	30,435	-	-	-	-
Property acquisition	1,041,250	-	-	1,041,250	516,994	-	-	-	-
Construction costs	1,017,704	-	-	1,017,704	922,916	-	-	-	-
Other development costs	579,555	-	-	579,555	601,098	-	-	-	-
Direct materials	-	-	-	-	-	277,057	-	277,057	265,199
Subcontractor costs	-	-	-	-	-	286,239	-	286,239	264,770
Other construction costs	-	-	-	-	-	29,239	-	29,239	32,787
Funds returned to government agency	45,232	-	-	45,232	5,433	-	-	-	-
Homeowner support	34,247	-	-	34,247	28,899	-	-	-	-
Insurance	10,786	1,870	652	13,308	21,818	26,293	-	26,293	22,043
Interest / bank fees	19,156	6,522	791	26,469	33,384	-	8,280	8,280	9,010
Marketing	22,565	1,514	3,190	27,269	15,882	1,058	-	1,058	4,514
Membership	10,862	1,131	626	12,619	10,129	-	-	-	-
Board	1,303	4,284	523	6,110	6,030	2,353	-	2,353	3,687
Discount on new deferred loans	31,910	-	-	31,910	78,941	-	-	-	-
Special event expenses	269	822	25,815	26,906	15,413	-	-	-	-
Other	5,762	27,606	411	33,779	12,708	-	-	-	264
<b>Total expenses</b>	<b>3,816,445</b>	<b>202,735</b>	<b>131,201</b>	<b>4,150,381</b>	<b>3,376,157</b>	<b>1,223,050</b>	<b>181,638</b>	<b>1,404,688</b>	<b>1,312,048</b>
Expenses not included in operating income	(292,414)	-	-	(292,414)	(219,433)	-	-	-	-
Cost of homes sold	(2,562,010)	-	-	(2,562,010)	(1,899,117)	-	-	-	-
Land cost capitalization	171,800	-	-	171,800	161,700	-	-	-	-
<b>\$ 1,133,821</b>	<b>\$ 202,735</b>	<b>\$ 131,201</b>	<b>\$ 1,467,757</b>	<b>\$ 1,419,307</b>	<b>\$ 1,223,050</b>	<b>\$ 181,638</b>	<b>\$ 1,404,688</b>	<b>\$ 1,312,048</b>	

See independent auditor's report.

# ONE ROOF COMMUNITY HOUSING

## COMPARATIVE STATEMENTS OF FINANCIAL POSITION - COMMON GROUND

December 31, 2015 and 2014

	2015	2014
<b>ASSETS</b>		
Current assets:		
Cash	\$ 11,569	\$ 53,005
Cash designated for programs	3,760	-
Accounts receivable, net	10,874	270
Due from One Roof	151,849	147,612
Prepaid expenses	7,323	8,601
Costs in excess of billings	-	14,000
Total current assets	185,375	223,488
Equipment, net	16,369	17,773
Total assets	\$ 201,744	\$ 241,261
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 38,826	\$ 37,729
Accrued payroll and related taxes	38,970	48,289
Billings in excess of costs	16,493	-
Due to One Roof	157,876	283,637
Total current liabilities	252,165	369,655
Unrestricted net assets	(50,421)	(128,394)
Total liabilities and net assets	\$ 201,744	\$ 241,261

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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Revenues and support:		
Construction revenues	\$ 1,372,669	\$ 1,392,347
Other revenues	<u>11,212</u>	<u>22,659</u>
Total revenues and support	<u>1,383,881</u>	<u>1,415,006</u>
Expenses:		
Construction service	1,223,050	1,148,373
Management and general	<u>181,638</u>	<u>163,675</u>
Total expenses	<u>1,404,688</u>	<u>1,312,048</u>
Change in net assets	(20,807)	102,958
Net assets, beginning of year	(128,394)	(231,352)
Capital contribution	<u>98,780</u>	<u>-</u>
Net assets, end of year	<u><u>\$ (50,421)</u></u>	<u><u>\$ (128,394)</u></u>

See independent auditor's report.

## ONE ROOF COMMUNITY HOUSING

### COMPARATIVE STATEMENT OF FINANCIAL POSITION - NEIGHBORHOOD HOUSING SERVICES OF DULUTH, INC. DBA ONE ROOF COMMUNITY LENDING

December 31, 2015  
(With Comparative Totals for 2014)

	2015	2014
<b>ASSETS</b>		
Current assets:		
Cash	\$ 21,977	\$ 8,784
Cash designated for programs	-	497
Loans receivable, current portion	57,400	41,700
Total current assets	79,377	50,981
Cash restricted for loan programs	494,335	748,029
Loans receivable - net, less current portion	1,191,342	964,571
Other assets	164,321	73,613
Total assets	\$ 1,929,375	\$ 1,837,194
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Current maturities of long-term debt	\$ 100,000	\$ -
Committed loans	162,380	84,413
Borrower escrows	13,821	1,776
Other current liabilities	75,496	132,695
Total current liabilities	351,697	218,884
Long-term debt, less current maturities	313,242	474,642
Total liabilities	664,939	693,526
Net assets:		
Unrestricted	34,850	6,538
Permanently restricted	2,096,172	2,070,288
Less discount on deferred loans	(866,586)	(933,158)
Net permanently restricted	1,229,586	1,137,130
Total net assets	1,264,436	1,143,668
Total liabilities and net assets	\$ 1,929,375	\$ 1,837,194

See independent auditor's report.

**ONE ROOF COMMUNITY HOUSING**

COMPARATIVE STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS -  
NEIGHBORHOOD HOUSING SERVICES OF DULUTH, INC.  
DBA ONE ROOF COMMUNITY LENDING

For the Year Ended December 31, 2015  
(With Comparative Totals for 2014)

	2015			2014
	Unrestricted	Permanently Restricted	Total	
Revenues and support:				
Contributions - operating	\$ 72,500	\$ -	\$ 72,500	\$ 85,696
Government grants and contracts - operating	135,730	-	135,730	60,193
Interest income - loans	33,133	-	33,133	42,229
Interest income - deferred loan accretion	-	98,482	98,482	-
Loan fees	77,916	-	77,916	64,399
Other revenues	1,552	-	1,552	3
Net assets released from restriction	76,026	(76,026)	-	-
Total revenues and support	<u>396,857</u>	<u>22,456</u>	<u>419,313</u>	<u>252,520</u>
Expenses:				
Salaries, payroll taxes and benefits	212,281	-	212,281	130,948
Office and occupancy	28,933	-	28,933	24,883
Professional and consulting fees	23,327	-	23,327	19,396
Interest and bank fees	12,538	-	12,538	12,638
Advertising and marketing	8,022	-	8,022	495
Depreciation	4,121	-	4,121	2,369
Bad debt expense	-	-	-	30,435
Discount on new deferred loans	31,910	-	31,910	78,941
Other expenses	3,297	-	3,297	3,258
Total expenses	<u>324,429</u>	<u>-</u>	<u>324,429</u>	<u>303,363</u>
Operating income (loss)	72,428	22,456	94,884	(50,843)
-	-	-	-	-
Contributions and grants for loan program	-	70,000	70,000	80,000
Loan program funds returned to government agency	(44,116)	-	(44,116)	(5,433)
Change in net assets	28,312	92,456	120,768	23,724
Net assets, beginning of year	<u>6,538</u>	<u>1,137,130</u>	<u>1,143,668</u>	<u>1,119,944</u>
Net assets, end of year	<u>\$ 34,850</u>	<u>\$ 1,229,586</u>	<u>\$ 1,264,436</u>	<u>\$ 1,143,668</u>

See independent auditor's report.

**ONE ROOF COMMUNITY HOUSING**

STATEMENT OF FINANCIAL POSITION -  
PERMANENTLY RESTRICTED FUNDS

December 31, 2015

	NW Fund	CDBG Fund	Homeowner Relief Loan Fund	Total
<b>ASSETS</b>				
Current assets:				
Loans receivable, current portion	\$ 16,000	\$ 7,200	\$ -	\$ 23,200
Total current assets	<u>16,000</u>	<u>7,200</u>	<u>-</u>	<u>23,200</u>
Cash restricted for loan programs	391,106	1,505	-	392,611
Loans receivable, less current portion	435,497	420,637	5,000	861,134
Allowance for loan losses	<u>(5,128)</u>	<u>(16,865)</u>	<u>-</u>	<u>(21,993)</u>
Total assets	<u>\$ 837,475</u>	<u>\$ 412,477</u>	<u>\$ 5,000</u>	<u>\$ 1,254,952</u>
<b>LIABILITIES AND NET ASSETS</b>				
Current liabilities:				
Committed loans	\$ 7,078	\$ -	\$ -	\$ 7,078
Borrower escrows and other liabilities	<u>-</u>	<u>13,288</u>	<u>-</u>	<u>13,288</u>
Total liabilities	<u>7,078</u>	<u>13,288</u>	<u>-</u>	<u>20,366</u>
Net assets -				
Permanently restricted	1,696,983	399,189	5,000	2,101,172
Less: discount on deferred loans	<u>(866,586)</u>	<u>-</u>	<u>-</u>	<u>(866,586)</u>
Total net assets	<u>830,397</u>	<u>399,189</u>	<u>5,000</u>	<u>1,234,586</u>
Total liabilities and net assets	<u>\$ 837,475</u>	<u>\$ 412,477</u>	<u>\$ 5,000</u>	<u>\$ 1,254,952</u>

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, 2015

	NW Fund	CDBG Fund	Homeowner Relief Loan Fund	Total
Support:				
NW capital grant	\$ 70,000	\$ -	\$ -	\$ 70,000
Contributions	-	-	-	-
Revenue:				
Interest income - deferred loan accretion	98,482	-	-	98,482
Total revenue and support	<u>168,482</u>	<u>-</u>	<u>-</u>	<u>168,482</u>
Expenses:				
Grant funds returned	-	44,116	-	44,116
Discount on new deferred loans	31,910	-	-	31,910
Total expenses	<u>31,910</u>	<u>44,116</u>	<u>-</u>	<u>76,026</u>
Change in net assets	136,572	(44,116)	-	92,456
Net assets:				
Beginning of year	<u>693,825</u>	<u>443,305</u>	<u>5,000</u>	<u>1,142,130</u>
End of year	<u>\$ 830,397</u>	<u>\$ 399,189</u>	<u>\$ 5,000</u>	<u>\$ 1,234,586</u>

See independent auditor's report.