

ONE ROOF COMMUNITY HOUSING

CONSOLIDATED FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED
DECEMBER 31, 2016

ONE ROOF COMMUNITY HOUSING

CONSOLIDATED FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Consolidated Financial Statements:	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities and Changes in Net Assets	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7
Supplementary Information:	
Consolidating Statement of Financial Position	26
Consolidating Statement of Activities and Changes in Net Assets	27
Statements of Functional Expenses by Entity	28
Comparative Statements of Financial Position – Common Ground	29
Comparative Statements of Activities and Changes in Net Assets – Common Ground	30
Comparative Statements of Financial Position – NHS	31
Comparative Statements of Activities and Changes in Net Assets – NHS	32
Statement of Financial Position – Permanently Restricted Funds	33
Statement of Activities and Changes in Net Assets – Permanently Restricted Funds	34



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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, 2016, 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, 2016, 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 2015 consolidated financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated June 13, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, 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 26 through 34 is presented for purposes of additional analysis of the consolidated 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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, 2017

ONE ROOF COMMUNITY HOUSING

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2016
(With Comparative Totals for 2015)

	2016	2015
ASSETS		
Current assets:		
Cash	\$ 1,011,206	\$ 565,708
Cash designated for programs	681,621	386,224
Accounts and grants receivable, net	347,926	506,565
Contributions receivable	64,847	69,039
Loans receivable, current portion	75,400	57,400
Prepaid expenses	30,659	26,812
Properties under development and for sale	2,646,926	1,663,045
Total current assets	4,858,585	3,274,793
Cash restricted for loan programs	408,702	494,335
Loans receivable - net, less current portion	1,419,538	1,210,485
Leasehold improvements and equipment, net	87,560	98,651
Multifamily rental property, net	589,194	118,068
Land held in trust	3,841,825	3,745,175
Total assets	\$ 11,205,404	\$ 8,941,507
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities of long-term debt	\$ 929,808	\$ 815,476
Line of credit	-	75,000
Accounts payable	333,252	134,901
Accrued payroll and related taxes	233,468	240,313
Accrued interest	3,842	-
Billings in excess of costs	-	7,141
Deferred revenue	895,304	347,757
Committed loans	117,640	162,380
Borrower escrows	2,158	13,821
Other current liabilities	45,212	75,496
Total current liabilities	2,560,684	1,872,285
Long-term debt, less current maturities	2,479,119	1,060,011
Total liabilities	5,039,803	2,932,296
Net assets:		
Unrestricted	575,588	665,411
Board designated - operating reserve	345,000	295,000
Board designated - land held in trust	3,841,825	3,745,175
Total unrestricted	4,762,413	4,705,586
Temporarily restricted	74,847	69,039
Permanently restricted	2,133,928	2,101,172
Less discount on deferred loans	(805,587)	(866,586)
Net permanently restricted	1,328,341	1,234,586
Total net assets	6,165,601	6,009,211
Total liabilities and net assets	\$ 11,205,404	\$ 8,941,507

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, 2016
(With Comparative Totals for 2015)

	2016			Total	2015
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenues and support:					
Contributions - development	\$ 186,315	\$ -	\$ -	\$ 186,315	\$ 154,000
Government grants and contracts - development	925,200	-	-	925,200	992,603
Sales of homes	1,317,155	-	-	1,317,155	1,624,500
Less cost of homes sold	<u>(2,249,933)</u>	<u>-</u>	<u>-</u>	<u>(2,249,933)</u>	<u>(2,384,748)</u>
Development fees - single family, net	178,737	-	-	178,737	386,355
Development fees - multi-family	298,063	-	-	298,063	246,313
Construction revenues	265,301	-	-	265,301	354,062
Less construction services expense	<u>(230,610)</u>	<u>-</u>	<u>-</u>	<u>(230,610)</u>	<u>(313,279)</u>
Construction revenues, net	34,691	-	-	34,691	40,783
Contributions - operating	103,057	74,847	-	177,904	253,396
Contributions - noncash	19,299	-	-	19,299	29,887
Special events	45,218	-	-	45,218	33,161
Government grants and contracts - operating	518,192	-	-	518,192	495,225
Resale fees	5,326	-	-	5,326	13,854
Real estate sales commissions	73,166	-	-	73,166	118,848
Land lease revenues	95,587	-	-	95,587	86,171
Interest income - loans	42,810	-	-	42,810	33,133
Interest income - deferred loan accretion	-	-	87,284	87,284	98,482
Interest income - other	812	-	-	812	817
Loan fees	98,991	-	-	98,991	77,916
Other revenues	110,209	-	-	110,209	19,814
Net assets released from restriction	<u>132,568</u>	<u>(69,039)</u>	<u>(63,529)</u>	<u>-</u>	<u>-</u>
Total revenues and support	<u>1,756,726</u>	<u>5,808</u>	<u>23,755</u>	<u>1,786,289</u>	<u>1,934,155</u>
Expenses:					
Community land trust	346,036	-	-	346,036	357,141
Education, counseling and homeowner services	157,798	-	-	157,798	114,259
Lending services	351,356	-	-	351,356	324,988
Neighborhood revitalization	-	-	-	-	15,091
Multi-family development	416,327	-	-	416,327	241,975
Tenant-landlord connection	<u>153,718</u>	<u>-</u>	<u>-</u>	<u>153,718</u>	<u>80,367</u>
Total program services, less cost of homes sold	1,425,235	-	-	1,425,235	1,133,821
Management and general	313,853	-	-	313,853	365,508
Fundraising	<u>104,217</u>	<u>-</u>	<u>-</u>	<u>104,217</u>	<u>131,201</u>
Total expenses	<u>1,843,305</u>	<u>-</u>	<u>-</u>	<u>1,843,305</u>	<u>1,630,530</u>
Operating income (loss)	(86,579)	5,808	23,755	(57,016)	303,625
Land cost capitalized	96,650	-	-	96,650	171,800
Grants for loan program	-	-	70,000	70,000	70,000
Loan program funds returned to government agency	(33,244)	-	-	(33,244)	(44,116)
Contributed properties	80,000	-	-	80,000	40,000
Revenue for the Hillside development	-	-	-	-	248,298
Project cost for the Hillside development	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(248,298)</u>
Change in net assets	56,827	5,808	93,755	156,390	541,309
Net assets, beginning 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>
Net assets, end of year	<u>\$ 4,762,413</u>	<u>\$ 74,847</u>	<u>\$ 1,328,341</u>	<u>\$ 6,165,601</u>	<u>\$ 6,009,211</u>

See accompanying notes to consolidated financial statements.

ONE ROOF COMMUNITY HOUSING

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

	2016										2015
	Community land trust	Construction services	Education, counseling and homeowner services	Lending services	Multi-family development	Tenant-landlord connection	Total program services	Management and general	Fundraising	Total	
Salaries	\$ 198,901	\$ 394,156	\$ 102,052	\$ 186,912	\$ 190,232	\$ 105,122	\$ 1,177,375	\$ 187,388	\$ 46,507	\$ 1,411,270	\$ 1,401,816
Payroll taxes	13,731	47,255	7,470	12,996	14,108	7,393	102,953	22,295	2,949	128,197	131,283
Employee benefits	30,984	76,269	14,976	28,990	28,256	15,431	194,906	28,606	7,081	230,593	216,614
	243,616	517,680	124,498	228,898	232,596	127,946	1,475,234	238,289	56,537	1,770,060	1,749,713
Professional fees	13,621	-	4,164	10,536	13,240	2,880	44,441	28,413	1,326	74,180	64,107
Office supplies	1,896	3,456	739	1,794	1,310	691	9,886	2,285	466	12,637	20,277
Postage	3,817	-	1,828	4,456	3,458	2,781	16,340	1,884	8,215	26,439	17,613
Occupancy and utilities	4,718	9,286	1,891	5,115	4,247	1,968	27,225	4,103	1,244	32,572	29,182
Equipment expense	8,930	8,734	3,761	14,090	7,553	3,543	46,611	3,000	2,803	52,414	49,190
Telephone	4,288	2,943	1,657	4,778	3,854	1,727	19,247	1,419	1,157	21,823	20,880
Depreciation	4,897	4,238	2,359	5,058	23,353	2,427	42,332	3,055	1,118	46,505	29,872
Travel and training	9,457	5,027	3,481	6,321	7,112	1,210	32,608	6,745	660	40,013	36,358
Bad debt expense	-	-	-	4,000	-	-	4,000	-	-	4,000	-
Property acquisition	947,745	-	-	-	-	-	947,745	-	-	947,745	1,041,250
Construction costs	1,070,004	671,248	-	-	-	-	1,741,252	-	-	1,741,252	1,610,239
Other development costs	232,427	-	-	-	-	-	232,427	-	-	232,427	579,555
Funds returned to government agency	-	-	-	33,244	-	-	33,244	-	-	33,244	45,232
Homeowner support	24,078	-	4,754	5,475	99	54	34,460	41	24	34,525	34,247
Insurance	2,971	20,915	855	3,847	5,048	879	34,515	735	405	35,655	39,601
Interest / bank fees	3,244	-	205	15,851	5,546	4	24,850	4,497	746	30,093	26,884
Marketing	7,680	269	6,584	12,474	2,287	6,620	35,914	2,600	4,024	42,538	28,327
Membership	8,034	-	492	986	953	511	10,976	414	259	11,649	12,619
Board	546	1,376	263	514	499	270	3,468	3,866	124	7,458	8,462
Multifamily project operating expenses	-	-	-	-	104,764	-	104,764	-	-	104,764	-
Discount on new deferred loans	-	-	-	26,285	-	-	26,285	-	-	26,285	31,910
Special event expenses	839	-	-	-	-	-	839	50	24,794	25,683	26,906
Other	3,404	-	267	878	408	207	5,164	12,457	315	17,936	33,780
Total expenses	2,596,212	1,245,172	157,798	384,600	416,327	153,718	4,953,827	313,853	104,217	5,371,897	5,536,204
Reclassify Common Ground expenses related to One Roof projects	1,014,562	(1,014,562)	-	-	-	-	-	-	-	-	-
Eliminate construction costs paid to Common Ground by One Roof	(1,111,455)	-	-	-	-	-	(1,111,455)	-	-	(1,111,455)	(1,087,033)
Expenses netted against revenues or reported as nonoperating:											
Cost of homes sold	(2,249,933)	-	-	-	-	-	(2,249,933)	-	-	(2,249,933)	(2,384,748)
Construction services expense	-	(230,610)	-	-	-	-	(230,610)	-	-	(230,610)	(313,279)
Land cost capitalization	96,650	-	-	-	-	-	96,650	-	-	96,650	171,800
Loan program funds returned to government agency	-	-	-	(33,244)	-	-	(33,244)	-	-	(33,244)	(292,414)
Expenses reported in expense section of the statement of activities	\$ 346,036	\$ -	\$ 157,798	\$ 351,356	\$ 416,327	\$ 153,718	\$ 1,425,235	\$ 313,853	\$ 104,217	\$ 1,843,305	\$ 1,630,530
% of expense (after reclassification and elimination of Common Ground expenses) Note 2:											
2016	59%	5%	4%	8%	10%	4%	90%	7%	2%	99%	
2015	62%	8%	3%	8%	6%	2%	88%	9%	3%	100%	

See accompanying notes to consolidated financial statements.

ONE ROOF COMMUNITY HOUSING

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2016

(With Comparative Totals for 2015)

Increase (Decrease) in Cash

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 156,390	\$ 541,309
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation	46,505	29,872
Grants for loan program	(70,000)	(70,000)
Contributed properties	(80,000)	(40,000)
Changes in discount on deferred loans receivable	(60,999)	(66,572)
Funds returned to government agency for loan program	33,244	44,116
Bad debt expense	4,000	-
Changes in operating assets and liabilities:		
Receivables	162,831	47,484
Prepaid expenses	(3,847)	(14,555)
Properties under development and for sale	(903,881)	182,633
Land held in trust	(96,650)	(192,050)
Accounts payable	198,351	59,090
Accrued expenses	(3,003)	19,205
Deferred revenue	547,547	(276,380)
Borrower escrows	(11,663)	12,045
Other liabilities	(37,425)	(50,058)
Net cash from operating activities	(118,600)	226,139
Cash flows from investing activities:		
Decrease (increase) in cash restricted for loan programs	85,633	253,694
Issuance of loans receivable	(435,180)	(319,828)
Collection of loans receivable	220,386	226,206
Purchase of multi-family property	(490,000)	(121,998)
Purchase of leasehold improvements and equipment	(16,540)	(68,963)
Net cash from investing activities	(635,701)	(30,889)
Cash flows from financing activities:		
Grants for loan program	70,000	70,000
Change in operating line of credit, net	(75,000)	75,000
Funds returned to government agency for loan program	(33,244)	(44,116)
Proceeds from issuance of debt	2,230,565	642,866
Repayment of debt	(697,125)	(1,066,901)
Net cash from financing activities	1,495,196	(323,151)
Net increase (decrease) in cash	740,895	(127,901)
Cash, beginning of year	951,932	1,079,833
Cash, end of year	\$ 1,692,827	\$ 951,932
Reconciliation of cash to statement of financial position:		
Cash	\$ 1,011,206	\$ 565,708
Cash designated for programs	681,621	386,224
	\$ 1,692,827	\$ 951,932
Cash paid for interest expense	\$ 62,733	\$ 76,968
Noncash investing activities:		
Contributed properties	\$ 80,000	\$ 40,000

See accompanying notes to consolidated financial statements.

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

1. ORGANIZATION

One Roof Community Housing and subsidiaries (One Roof) is a nonprofit, membership and community based organization serving Duluth, MN and the surrounding communities 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.

Lending Services:

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.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

1. ORGANIZATION (Continued)

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 the One Roof community.

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 & Reuse Center, LLC (Common Ground). Significant inter-entity accounts and transactions have been eliminated.

One Roof Community Realty, LLC was formed to sell houses developed by One Roof Community Housing. 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.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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.

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 allowance for loan losses, discount on deferred loans, and functional expense allocations.

Cash and 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.

Cash designated for programs consists of \$648,834 related to the CLT program, \$7,401 related to the Multifamily Housing program and \$25,856 related to other programs at December 31, 2016, and \$355,305 related to the CLT program, \$4,691 related to the Multifamily Housing program and \$26,228 related to other programs at December 31, 2015.

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 at December 31, 2016 and 2015. Management determined that no allowance was needed for grants and contributions receivable since collection is expected.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 based upon an interest rate of 5% and an initial 30 year term. The discount is calculated using the weighted average term of the outstanding loans which is 24 years in 2016 and 25 years in 2015. 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 at December 31, 2016 and 2015.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The Organization records an allowance when costs are not expected to be recovered from combined proceeds of sales and subsidies.

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
Buildings	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.

In the absence of explicit donor restrictions regarding how long the donated or acquired assets must be used, One Roof reports expiration of donor restrictions when the donated or acquired assets are placed in service.

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. Since these investments are intended to be short term, the LLC and general partnership interests are recorded at cost (\$0 as of December 31, 2016 and 2015).

Impairment - Management assesses long-lived assets for impairment when conditions warrant. No impairment was recognized in 2016 or 2015.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

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. Interentity 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 2016 or 2015.

Contributed Materials - Contributed materials are recorded as contributions, when received, at their fair value. Contributed real estate valued at \$80,000, special event materials and supplies of \$15,999, room rental of \$700, and advertising of \$2,600 were recognized in 2016. 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.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

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 payable 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.

The allocation percentages on the schedule of functional expense are calculated based on total expenses less the lines which reclassify Common Ground expenses related to One Roof project and eliminate construction costs paid to Common Ground by One Roof.

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. Management believes there was no net unrelated business income in 2016 or 2015. The Organization believes that it has appropriate support for any tax positions taken, and accordingly, does not have any uncertain tax positions that are material to the financial statements.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Common Ground Deconstruction Service & Reuse Center, LLC and One Roof Community Realty, LLC are single member LLCs. The LLCs (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.

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, 2015.

Reclassifications - Reclassifications were made to the 2015 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, 2016 are due in 2017.

4. LOANS RECEIVABLE

Loans receivable by portfolio consist of the following:

	2016	2015
Amortizing mortgages	\$ 1,148,092	\$ 908,322
Deferred loans	1,074,245	1,132,206
Due on sale loans	120,228	135,983
Total loans receivable	2,342,565	2,176,511
Less discount on deferred and due on sale loans	(805,587)	(866,586)
Less allowance for loan losses	(42,040)	(42,040)
Total loans receivable, net	1,494,938	1,267,885
Less current portion	(75,400)	(57,400)
Noncurrent portion	\$ 1,419,538	\$ 1,210,485

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

4. LOANS RECEIVABLE (Continued)

The entire allowance for loan losses and all write offs are related to the amortizing mortgages. Activity in the allowance for loan losses was as follows:

	2016	2015
Beginning balance	\$ 42,040	\$ 85,289
Loans charged off	(4,000)	(43,249)
Provision for losses	4,000	-
	\$ 42,040	\$ 42,040
Ending balance	\$ 42,040	\$ 42,040

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

	2016				2015
	Amortizing mortgages	Deferred loans	Due on sale loans	Total	
Current	\$ 1,068,865	\$ -	\$ -	\$ 1,068,865	\$ 885,830
31 - 60 days	71,753	-	-	71,753	10,541
61 - 90 days	7,474	-	-	7,474	-
Over 90 days	-	-	-	-	11,951
Due on maturity	-	1,074,245	120,228	1,194,473	1,268,189
	\$ 1,148,092	\$ 1,074,245	\$ 120,228	\$ 2,342,565	\$ 2,176,511
Total	\$ 1,148,092	\$ 1,074,245	\$ 120,228	\$ 2,342,565	\$ 2,176,511

Other information as of December 31, 2016:

- 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, 2016
(With Comparative Totals for 2015)

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, 2016 and 2015, \$733,356 has been advanced. 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. 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:

	2016	2015
Houses under development and for sale – 16 in 2016 and 10 in 2015	\$ 2,034,915	\$ 1,258,731
Multi-family development:		
Gateway Towers	-	234,649
Grand Marais	234,118	-
Jay Street environmental remediation	324,372	-
Other multi-family developments	24,319	108,326
Vacant lots held for development – 4 in 2016 and 5 in 2015	29,202	61,339
	\$ 2,646,926	\$ 1,663,045

7. **LEASEHOLD IMPROVEMENTS AND EQUIPMENT**

Leasehold improvements and equipment consists of the following:

	2016	2015
Equipment	\$ 213,303	\$ 202,689
Leasehold improvements	32,261	32,261
Less accumulated depreciation	(158,004)	(136,299)
	\$ 87,560	\$ 98,651

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

8. MULTIFAMILY RENTAL PROPERTY

Multifamily rental property consists of the following:

	2016	2015
Building – SOL House	\$ 105,312	\$ 105,312
Building – Brewery Creek	416,100	-
Land – Brewery Creek	73,900	-
Land improvements	13,992	13,992
Equipment	2,694	2,694
Less accumulated depreciation	(22,804)	(3,930)
	<u>\$ 589,194</u>	<u>\$ 118,068</u>

SOL House is leased to Life House for a five year term beginning June 2015. Minimum future lease payments for SOL House consist of \$24,000 annually from 2017 through 2019 and \$9,000 in 2020. The land for Sol House is included in land held in trust.

Brewery Creek Apartments are leased to residential tenants under one year leases while management works on redeveloping the property and surrounding properties.

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 291 lots at December 31, 2016 and 283 at December 31, 2015.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

10. **DEBT**

Debt consists of the following:

	2016	2015
Greater Minnesota Housing Fund	\$ 400,000	\$ 635,313
MHFA CRV Funds	427,875	230,000
LISC	118,000	95,575
City of Duluth HIF	218,242	218,242
Duluth HRA	14,258	110,000
U.S. Bancorp CDC	250,000	250,000
Wells Fargo CDC	100,000	100,000
North Shore Bank	207,924	113,130
North Shore Bank – SOL House	111,808	123,227
National Bank of Commerce	386,872	-
Nonprofits Assistance Fund	134,690	-
MMCDC	1,039,258	-
Northland Foundation LOC	-	75,000
	\$ 3,408,927	\$ 1,950,487

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

	2016	2015
Current maturities of long-term debt	\$ 929,808	\$ 815,476
Line of credit	-	75,000
Long-term debt, less current maturities	2,479,119	1,060,011
	\$ 3,408,927	\$ 1,950,487

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 was for single-family foreclosure program financing and expired February 9, 2016. The outstanding balance was \$85,313 at December 31, 2015.
- \$550,000 commitment for working capital and investment/project capital. Advances bear interest at 4%. \$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 \$400,000 and \$550,000 at December 31, 2016 and 2015, respectively.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

10. DEBT (Continued)

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 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. The outstanding balance was \$230,000 at December 31, 2016 and 2015. Due in August 2017.
- \$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. Due in August 2017.
- \$225,000 is for affordability gap or value gap financing without interest and secured by the real estate per the loan modification. Due in August 2017.
- \$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. The outstanding balance was \$197,875 at December 31, 2016. Due in August 2018.

LISC - One Roof has recoverable grants and project investments (forgivable loans) 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, 2018. Secured by the property. The outstanding balance was \$20,000 at December 31, 2016 and 2015.
- \$48,000 recoverable grant for the 52nd Avenue East and Lester Street properties due on sale of the properties or July 1, 2016. The grant was repaid in July 2016.
- \$15,000 project investment for Gateway Towers due on the close of the construction financing or December 31, 2016. The grant was repaid in November 2016.
- \$19,340 project investment for Gateway Towers due on the close of the construction financing or December 31, 2016. The grant was repaid in November 2016.
- \$98,000 project investment for Brewery Creek due on the close of the construction financing or July 31, 2019. Secured by the property. The outstanding balance was \$98,000 at December 31, 2016.

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.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

10. DEBT (Continued)

Duluth HRA - One Roof has notes payable to the Duluth Housing and Redevelopment Authority (HRA). These loans are summarized below:

- \$110,000 note payable jointly with Center City Housing Corp. to the Duluth HRA 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 Towers Apartments (Gateway) redevelopment project. The note was repaid in November 2016.
- \$26,228 note payable to the Duluth HRA with no interest. Proceeds are to be used for predevelopment expenses for the Harbor Highlands predevelopment project. The outstanding balance was \$14,258 at December 31, 2016. The project was abandoned in 2016 and One Roof is working on resolution with the City. Reported as due in 2020.

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 had an initial maturity date in October 2016, but was extended an additional two years to October 2018. Quarterly principal payments \$12,500 plus interest are due through October 2018. Unsecured.

North Shore Bank - \$450,000 commitment to provide financing through July 31, 2017. 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, 2016.

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 \$1,123 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 are due through May 27, 2020. Secured by the SOL House property and guaranteed by Northland Foundation.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

10. DEBT (Continued)

National Bank of Commerce - \$392,000 mortgage payable to National Bank of Commerce for acquisition of Brewery Creek Apartments with interest at 5%. Monthly principal and interest payments of \$2,607 are due through June 5, 2021. Secured by the Brewery Creek property.

Nonprofits Assistance Fund - \$150,000 note payable to the Nonprofits Assistance Fund with interest at 5.5%. Monthly principal and interest payments of \$2,866 are due through May 31, 2021. These monthly payments are made by Common Ground, but flow through One Roof to the lender. Unsecured.

MMCDC - \$2,000,000 commitment to provide financing of up to \$1,500,000 for new home construction, or acquisition and rehabilitation, and a revolving loan fund, and \$500,000 for home improvement loans.

Individual loans provided for new home construction, or acquisition and rehabilitation, and a revolving loan fund bear interest at 3%. Principal and accrued interest are due either 3 years after the date of the note or upon sale of the home, whichever occurs first. The loans are secured by the related property. Five individual loans totaling \$939,325 are outstanding at December 31, 2016.

Individual loans provided for home improvement loans have a term of 15 years and bear interest at 3%. Principal and accrued interest are due at maturity of the individual loans. The loans are secured by the related loans made by One Roof. One individual loan with a balance of \$99,933 is outstanding at December 31, 2016.

Members Cooperative Credit Union LOC - \$29,000 unsecured revolving line of credit to Common Ground 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, 2016.

Future maturities of debt are as follows:

2017	\$	929,808
2018		802,528
2019		874,871
2020		135,105
2021		348,440
Thereafter		318,175
		<hr/>
	\$	<u>3,408,927</u>

Interest expense was \$81,400 in 2016 and \$69,684 in 2015, of which \$49,537 and \$44,700 was included in the cost of homes sold.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

11. LEASE COMMITMENTS

One Roof leases office space and office equipment under operating lease agreements. Rent expense was \$10,568 in 2016 and \$15,223 in 2015. Future minimum lease payments are:

2017	\$	13,032
2018		2,148
2019		2,148
2020		2,148
2021		179
		19,655
	\$	19,655

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 consist of the following restricted for:

	2016	2015
Lending consultant	\$ 10,000	\$ -
Time restricted contributions receivable	64,847	69,039
	\$ 74,847	\$ 69,039

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

	2016	2015
NeighborWorks America (NW) fund	\$ 1,762,983	\$ 1,696,983
CDBG fund City of Duluth	365,945	399,189
Homeowner relief loan fund	5,000	5,000
	\$ 2,133,928	\$ 2,101,172

The permanently restricted loan funds are offset by a discount on deferred loans of \$805,587 and \$866,586 at December 31, 2016 and 2015, 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, 2016
(With Comparative Totals for 2015)

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 \$76,923 in 2016 and \$77,307 in 2015.

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 used for property acquisition and renovation 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 79% (38%, 23%, 18%) of government grants from three agencies during 2016 and 88% (31%, 20%, 20%, 17%) of government grants from four agencies during 2015.

One Roof received 52% (22%, 12%, 18%) of contributions from three contributors during 2016 and 40% (28%, 12%) of contributions from two contributors during 2015.

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.

In 2012, One Roof sold loans with an outstanding balance of \$191,435 at the time of sale. 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, 2016.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

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 2016 or 2015.

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 during 2017 (Jay Street Development).

15. **TRANSACTIONS WITH AFFILIATES**

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

One Roof has made a loan to Hillside as described in Note 5.

One Roof has a development fee agreement with Hillside 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 \$246,313 in 2015. At December 31, 2016, the full amount of this development fee has been paid.

One Roof has a development fee agreement with Gateway and Center City which states that One Roof will receive 50% of the developer fee. The developer fee of up to \$1,255,751 is for services performed in the development of the apartments. Construction began, and One Roof recorded development fee revenue of \$298,063 in 2016. At December 31, 2016, \$37,528 of this development fee is recorded in accounts receivable.

One Roof has, along with Center City, provided guarantees to Hillside and Gateway's investors as to the tax credits and other benefits to be derived from the properties 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.

(Continued)

ONE ROOF COMMUNITY HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

15. **TRANSACTIONS WITH AFFILIATES (Continued)**

One Roof has the right to withdraw from the LLCs after lien free construction completion of the projects. 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.

16. **SUBSEQUENT EVENTS**

In May 2017, One Roof paid off the remainder of the \$550,000 GMHF loan and obtained a new loan from GMHF for \$1,400,000.

Management has evaluated subsequent events through June 13, 2017, 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, 2016

	One Roof	One Roof Lending	Common Ground	Eliminations	Total
ASSETS					
Current assets:					
Cash	\$ 784,526	\$ 885	\$ 225,795	\$ -	\$ 1,011,206
Cash designated for programs	690,030	-	-	(8,409)	681,621
Accounts and grants receivable, net	332,883	14,907	136	-	347,926
Contributions receivable	64,847	-	-	-	64,847
Due from other division	141,041	38,955	189,086	(369,082)	-
Interest receivable	-	3,841	-	(3,841)	-
Loans receivable, current portion	-	75,400	-	-	75,400
Prepaid expenses	25,336	-	5,323	-	30,659
Properties under development and for sale	2,974,093	-	-	(327,167)	2,646,926
Total current assets	5,012,756	133,988	420,340	(708,499)	4,858,585
Cash restricted for loan programs	-	408,702	-	-	408,702
Investment in Common Ground	98,780	-	-	(98,780)	-
Loans receivable - net, less current portion	-	2,358,863	-	(939,325)	1,419,538
Leasehold improvements and equipment, net	68,476	-	19,084	-	87,560
Multifamily rental property, net	589,194	-	-	-	589,194
Land held in trust	3,841,825	-	-	-	3,841,825
Total assets	\$ 9,611,031	\$ 2,901,553	\$ 439,424	\$ (1,746,604)	\$ 11,205,404
LIABILITIES AND NET ASSETS					
Current liabilities:					
Current maturities of long-term debt	\$ 629,808	\$ 300,000	\$ -	\$ -	\$ 929,808
Accounts payable	247,901	-	86,334	(983)	333,252
Accrued payroll and related taxes	197,972	4,945	30,551	-	233,468
Accrued interest	3,842	3,841	-	(3,841)	3,842
Billings in excess of costs	-	-	36,674	(36,674)	-
Deferred revenue	895,304	-	-	-	895,304
Committed loans	-	117,640	-	-	117,640
Borrower escrows	-	2,158	-	-	2,158
Other current liabilities	-	45,212	-	-	45,212
Due to other division	236,450	-	382,713	(619,163)	-
Total current liabilities	2,211,277	473,796	536,272	(660,661)	2,560,684
Long-term debt, less current maturities	2,265,944	1,152,500	-	(939,325)	2,479,119
Total liabilities	4,477,221	1,626,296	536,272	(1,599,986)	5,039,803
Net assets:					
Unrestricted	877,138	(58,084)	(96,848)	(146,618)	575,588
Board designated - operating reserve	345,000	-	-	-	345,000
Board designated - land held in trust	3,841,825	-	-	-	3,841,825
Total unrestricted	5,063,963	(58,084)	(96,848)	(146,618)	4,762,413
Temporarily restricted	64,847	10,000	-	-	74,847
Permanently restricted	5,000	2,128,928	-	-	2,133,928
Less discount on deferred loans	-	(805,587)	-	-	(805,587)
Net permanently restricted	5,000	1,323,341	-	-	1,328,341
Total net assets	5,133,810	1,275,257	(96,848)	(146,618)	6,165,601
Total liabilities and net assets	\$ 9,611,031	\$ 2,901,553	\$ 439,424	\$ (1,746,604)	\$ 11,205,404

See independent auditor's report.

ONE ROOF COMMUNITY HOUSING

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2016

	One Roof	One Roof Lending	Common Ground	Eliminations	Total
Revenues and support:					
Contributions - development	\$ 186,315	\$ -	\$ -	\$ -	\$ 186,315
Government grants and contracts - development	925,200	-	-	-	925,200
Sales of homes	1,317,155	-	-	-	1,317,155
Less cost of homes sold	<u>(2,346,826)</u>	-	-	96,893	<u>(2,249,933)</u>
Development fees - single family, net	81,844	-	-	96,893	178,737
Development fees - multi-family	298,063	-	-	-	298,063
Construction revenues	-	-	1,341,741	(1,076,440)	265,301
Less construction services expense	-	-	<u>(1,245,172)</u>	<u>1,014,562</u>	<u>(230,610)</u>
Construction revenues, net	-	-	96,569	(61,878)	34,691
Contributions - operating	168,192	9,712	-	-	177,904
Contributions - noncash	19,299	-	-	-	19,299
Special events	45,218	-	-	-	45,218
Government grants and contracts - operating	435,311	82,881	-	-	518,192
Resale fees	5,326	-	-	-	5,326
Real estate sales commissions	73,166	-	-	-	73,166
Land lease revenues	95,587	-	-	-	95,587
Interest income - loans	8,021	46,652	-	(11,863)	42,810
Interest income - deferred loan accretion	-	87,284	-	-	87,284
Interest income - other	812	-	-	-	812
Loan fees	-	98,991	-	-	98,991
Other revenues	117,833	83	13,415	(21,122)	110,209
Total revenues and support	<u>1,348,672</u>	<u>325,603</u>	<u>109,984</u>	<u>2,030</u>	<u>1,786,289</u>
Expenses:					
Program services	1,073,697	351,538	-	-	1,425,235
Management and general	180,305	-	156,411	(22,863)	313,853
Fundraising	104,217	-	-	-	104,217
Total program services, less cost of homes sold	<u>1,358,219</u>	<u>351,538</u>	<u>156,411</u>	<u>(22,863)</u>	<u>1,843,305</u>
Operating loss	(9,547)	(25,935)	(46,427)	24,893	(57,016)
Land cost capitalized	96,650	-	-	-	96,650
Grants for loan program	-	70,000	-	-	70,000
Loan program funds returned to government agency	-	(33,244)	-	-	(33,244)
Contributed properties	80,000	-	-	-	80,000
Change in net assets	167,103	10,821	(46,427)	24,893	156,390
Net assets, beginning 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>
Net assets, end of year	<u>\$ 5,133,810</u>	<u>\$ 1,275,257</u>	<u>\$ (96,848)</u>	<u>\$ (146,618)</u>	<u>\$ 6,165,601</u>

See independent auditor's report.

ONE ROOF COMMUNITY HOUSING

STATEMENTS OF FUNCTIONAL EXPENSES BY ENTITY

For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

	One Roof and One Roof Lending					Common Ground			
	2016		Fundraising	Total expenses	2015	2016		Total expenses	2015
Program services	Management and general	Program services				Management and general			
Salaries	\$ 783,219	\$ 93,046	\$ 46,507	\$ 922,772	\$ 849,386	\$ 394,156	\$ 105,342	\$ 499,498	\$ 563,430
Payroll taxes	55,698	9,666	2,949	68,313	60,828	47,255	12,629	59,884	70,455
Employee benefits	118,637	12,743	7,081	138,461	124,734	76,269	15,863	92,132	91,880
Total salary	957,554	115,455	56,537	1,129,546	1,034,948	517,680	133,834	651,514	725,765
Professional fees	44,441	21,038	1,326	66,805	57,217	-	7,375	7,375	6,890
Office supplies	6,430	1,361	466	8,257	15,375	3,456	924	4,380	4,902
Postage	16,340	1,884	8,215	26,439	17,613	-	-	-	-
Occupancy and utilities	17,939	1,621	1,244	20,804	18,529	9,286	2,482	11,768	10,653
Equipment expense	37,877	3,000	2,803	43,680	38,351	8,734	-	8,734	10,839
Telephone	16,304	632	1,157	18,093	17,985	2,943	787	3,730	2,895
Depreciation	38,094	1,903	1,118	41,115	21,657	4,238	1,152	5,390	8,215
Travel and training	27,581	5,401	660	33,642	32,348	5,027	1,344	6,371	4,010
Bad debt expense	4,000	-	-	4,000	-	-	-	-	-
Property acquisition	947,745	-	-	947,745	1,041,250	-	-	-	-
Construction costs	1,070,004	-	-	1,070,004	1,017,704	-	-	-	-
Other development costs	232,427	-	-	232,427	579,555	-	-	-	-
Direct materials	-	-	-	-	-	213,796	-	213,796	277,057
Subcontractor costs	-	-	-	-	-	410,671	-	410,671	286,239
Other construction costs	-	-	-	-	-	46,781	-	46,781	29,239
Funds returned to government agency	33,244	-	-	33,244	45,232	-	-	-	-
Homeowner support	34,460	41	24	34,525	34,247	-	-	-	-
Insurance	13,600	735	405	14,740	13,308	20,915	-	20,915	26,293
Interest / bank fees	24,850	7,847	746	33,443	26,469	-	8,513	8,513	8,280
Marketing	35,645	2,600	4,024	42,269	27,269	269	-	269	1,058
Membership	10,976	414	259	11,649	12,619	-	-	-	-
Board	2,092	3,866	124	6,082	6,110	1,376	-	1,376	2,352
Multifamily project operating expenses	104,764	-	-	104,764	-	-	-	-	-
Discount on new deferred loans	26,285	-	-	26,285	31,910	-	-	-	-
Special event expenses	839	50	24,794	25,683	26,906	-	-	-	-
Other	5,164	12,457	315	17,936	33,780	-	-	-	-
Total expenses	3,708,655	180,305	104,217	3,993,177	4,150,382	1,245,172	156,411	1,401,583	1,404,687
Expenses netted against revenues or reported as nonoperating:									
Cost of homes sold	(2,346,826)	-	-	(2,346,826)	(2,562,010)	-	-	-	-
Construction services expense	-	-	-	-	-	(230,610)	-	(230,610)	(313,279)
Land cost capitalization	96,650	-	-	96,650	171,800	-	-	-	-
Loan program funds returned to government agency	(33,244)	-	-	(33,244)	(292,414)	-	-	-	-
	\$ 1,425,235	\$ 180,305	\$ 104,217	\$ 1,709,757	\$ 1,467,758	\$ 1,014,562	\$ 156,411	\$ 1,170,973	\$ 1,091,408

See independent auditor's report.

ONE ROOF COMMUNITY HOUSING

COMPARATIVE STATEMENTS OF FINANCIAL POSITION - COMMON GROUND

December 31, 2016 and 2015

	2016	2015
ASSETS		
Current assets:		
Cash	\$ 225,795	\$ 11,569
Cash designated for programs	-	3,760
Accounts receivable, net	136	10,874
Due from One Roof	189,086	151,849
Prepaid expenses	5,323	7,323
Total current assets	420,340	185,375
Equipment, net	19,084	16,369
Total assets	\$ 439,424	\$ 201,744
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 86,334	\$ 38,826
Accrued payroll and related taxes	30,551	38,970
Billings in excess of costs	36,674	16,493
Due to One Roof	382,713	157,876
Total current liabilities	536,272	252,165
Unrestricted net assets	(96,848)	(50,421)
Total liabilities and net assets	\$ 439,424	\$ 201,744

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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Revenues and support:		
Construction revenues	\$ 1,341,741	\$ 1,372,669
Other revenues	13,415	11,212
	<u>1,355,156</u>	<u>1,383,881</u>
Total revenues and support		
Expenses:		
Construction service	1,245,172	1,223,050
Management and general	156,411	181,638
	<u>1,401,583</u>	<u>1,404,688</u>
Total expenses		
Change in net assets	(46,427)	(20,807)
Net assets, beginning of year	(50,421)	(128,394)
Capital contribution	<u>-</u>	<u>98,780</u>
Net assets, end of year	<u>\$ (96,848)</u>	<u>\$ (50,421)</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, 2016
(With Comparative Totals for 2015)

	2016	2015
ASSETS		
Current assets:		
Cash	\$ 885	\$ 21,977
Accounts receivable	14,907	-
Interest receivable	3,841	-
Loans receivable, current portion	75,400	57,400
Other current assets	38,955	164,321
Total current assets	133,988	243,698
Cash restricted for loan programs	408,702	494,335
Loans receivable - net, less current portion	2,358,863	1,191,342
Total assets	\$ 2,901,553	\$ 1,929,375
LIABILITIES AND NET ASSETS		
Liabilities:		
Current maturities of long-term debt	\$ 300,000	\$ 100,000
Committed loans	117,640	162,380
Borrower escrows	2,158	13,821
Other current liabilities	53,998	75,496
Total current liabilities	473,796	351,697
Long-term debt, less current maturities	1,152,500	313,242
Total liabilities	1,626,296	664,939
Net assets:		
Unrestricted	(58,084)	34,850
Temporarily restricted	10,000	-
Permanently restricted	2,128,928	2,096,172
Less discount on deferred loans	(805,587)	(866,586)
Net permanently restricted	1,323,341	1,229,586
Total net assets	1,275,257	1,264,436
Total liabilities and net assets	\$ 2,901,553	\$ 1,929,375

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, 2016
(With Comparative Totals for 2015)

	2016			Total	2015
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenues and support:					
Contributions - operating	\$ 9,712	\$ -	\$ -	\$ 9,712	\$ 72,500
Government grants and contracts - operating	72,881	10,000	-	82,881	135,730
Interest income - loans	46,652	-	-	46,652	33,133
Interest income - deferred loan accretion	-	-	87,284	87,284	98,482
Loan fees	98,991	-	-	98,991	77,916
Other revenues	83	-	-	83	1,552
Net assets released from restriction	63,529	-	(63,529)	-	-
Total revenues and support	<u>291,848</u>	<u>10,000</u>	<u>23,755</u>	<u>325,603</u>	<u>419,313</u>
Expenses:					
Salaries, payroll taxes and benefits	228,866	-	-	228,866	212,281
Office and occupancy	31,232	-	-	31,232	28,933
Professional and consulting fees	16,129	-	-	16,129	23,327
Interest and bank fees	15,851	-	-	15,851	12,538
Advertising and marketing	12,474	-	-	12,474	8,022
Depreciation	5,058	-	-	5,058	4,121
Bad debt expense	4,000	-	-	4,000	-
Discount on new deferred loans	26,285	-	-	26,285	31,910
Other expenses	11,643	-	-	11,643	3,297
Total expenses	<u>351,538</u>	<u>-</u>	<u>-</u>	<u>351,538</u>	<u>324,429</u>
Operating income (loss)	(59,690)	10,000	23,755	(25,935)	94,884
Grants for loan program	-	-	70,000	70,000	70,000
Loan program funds returned to government agency	(33,244)	-	-	(33,244)	(44,116)
Change in net assets	(92,934)	10,000	93,755	10,821	120,768
Net assets, beginning of year	34,850	-	1,229,586	1,264,436	1,143,668
Net assets, end of year	<u>\$ (58,084)</u>	<u>\$ 10,000</u>	<u>\$ 1,323,341</u>	<u>\$ 1,275,257</u>	<u>\$ 1,264,436</u>

See independent auditor's report.

ONE ROOF COMMUNITY HOUSING

STATEMENT OF FINANCIAL POSITION -
PERMANENTLY RESTRICTED FUNDS

December 31, 2016

	NW Fund	CDBG Fund	Homeowner Relief Loan Fund	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ASSETS				
Current assets:				
Loans receivable, current portion	\$ 30,000	\$ 5,000	\$ -	\$ 35,000
Cash restricted for loan programs	367,861	1,473	-	369,334
Loans receivable, less current portion	622,506	389,593	5,000	1,017,099
Allowance for loan losses	<u>(5,128)</u>	<u>(16,865)</u>	<u>-</u>	<u>(21,993)</u>
 Total assets	 <u>\$ 1,015,239</u>	 <u>\$ 379,201</u>	 <u>\$ 5,000</u>	 <u>\$ 1,399,440</u>
LIABILITIES AND NET ASSETS				
Current liabilities:				
Committed loans	\$ 27,784	\$ -	\$ -	\$ 27,784
Borrower escrows and other liabilities	30,059	13,256	-	43,315
Total liabilities	<u>57,843</u>	<u>13,256</u>	<u>-</u>	<u>71,099</u>
Net assets -				
Permanently restricted	1,762,983	365,945	5,000	2,133,928
Less: discount on deferred loans	<u>(805,587)</u>	<u>-</u>	<u>-</u>	<u>(805,587)</u>
Total net assets	<u>957,396</u>	<u>365,945</u>	<u>5,000</u>	<u>1,328,341</u>
 Total liabilities and net assets	 <u>\$ 1,015,239</u>	 <u>\$ 379,201</u>	 <u>\$ 5,000</u>	 <u>\$ 1,399,440</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, 2016

	NW Fund	CDBG Fund	Homeowner Relief Loan Fund	Total
Support:				
NW capital grant	\$ 70,000	\$ -	\$ -	\$ 70,000
Revenue:				
Interest income - deferred loan accretion	87,284	-	-	87,284
Total revenue and support	<u>157,284</u>	<u>-</u>	<u>-</u>	<u>157,284</u>
Expenses:				
Grant funds returned	-	33,244	-	33,244
Approved loan losses	4,000	-	-	4,000
Discount on new deferred loans	26,285	-	-	26,285
Total expenses	<u>30,285</u>	<u>33,244</u>	<u>-</u>	<u>63,529</u>
Change in net assets	126,999	(33,244)	-	93,755
Net assets:				
Beginning of year	<u>830,397</u>	<u>399,189</u>	<u>5,000</u>	<u>1,234,586</u>
End of year	<u>\$ 957,396</u>	<u>\$ 365,945</u>	<u>\$ 5,000</u>	<u>\$ 1,328,341</u>

See independent auditor's report.